

APS / Rates - Permanent  
E-01345A-08-0172

Volume III  
8/21/2009



0000101856

1 BEFORE THE ARIZONA CORPORATION COMMISSION

2

3 IN THE MATTER OF THE APPLICATION )  
 4 OF ARIZONA PUBLIC SERVICE )  
 5 COMPANY FOR A HEARING TO ) DOCKET NO.  
 6 DETERMINE THE FAIR VALUE OF THE ) E-01345A-08-0172  
 7 UTILITY PROPERTY OF THE COMPANY )  
 8 FOR RATEMAKING PURPOSES, TO FIX ) PERMANENT  
 9 A JUST AND REASONABLE RATE OF )  
 10 RETURN THEREON, TO APPROVE RATE )  
 11 SCHEDULES DESIGNED TO DEVELOP )  
 12 SUCH RETURN. ) EVIDENTIARY  
 13 ) HEARING

Arizona Corporation Commission  
**DOCKETED**

AUG 24 2009

DOCKETED BY	<i>[Signature]</i>
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10 At: Phoenix, Arizona

11 Date: August 21, 2009

12 Filed: August 24, 2009

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15 REPORTER'S TRANSCRIPT OF PROCEEDINGS

16 VOLUME III

17 (Pages 499 through 729, inclusive.)

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23 Prepared for: By: KATE E. BAUMGARTH, CR No. 50582  
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1 BE IT REMEMBERED that the above-entitled and  
2 numbered matter came on regularly to be heard before the  
3 Arizona Corporation Commission, in Hearing Room No. 1 of  
4 said Commission, 1200 West Washington Street, Phoenix,  
5 Arizona, commencing at 9:00 a.m., on the 21st day, of  
6 August, 2009.

7

8 BEFORE: KRISTIN K. MAYES, Chairman  
9 SANDRA D. KENNEDY, Commissioner

10 LYN A. FARMER, Chief Administrative Law Judge

11

12 Note: No roll call taken. The following are the  
13 appearances as they appear in Volume I of  
these proceedings.

14 APPEARANCES:

15 For the Arizona Corporation Commission Staff:

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17 and Mr. Charles H. Hains  
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13 For Mesquite Power, LLC; Southwestern Power Group II, LLC;  
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24 and Arizona Association of School Business Officials:

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19 KATE E. BAUMGARTH, CR No. 50582  
MICHELE E. BALMER, CR No. 50489

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1 CALJ FARMER: Let's go back on the record.

2 Good morning. Before we begin with testimony,  
3 intervenor, Ms. Pecora, has passed out some exhibits.

4 Ms. Pecora, do you have a copy of those up there?

5 MS. WYLLIE-PECORA: Right.

6 CALJ FARMER: If you could briefly state for the  
7 record the exhibit number and the title of the document so  
8 that we -- the record will be clear as to what the  
9 exhibits are.

10 MS. WYLLIE-PECORA: The Exhibit No. 4 is a  
11 response to Commission Mayes' letter submitted to the  
12 docket dated August 5th of 2009.

13 Exhibit P-5 are letters from the realtors, the  
14 contractors, and the builders.

15 No. P-6 is a letter from a doctor in Prescott who  
16 built a clinic.

17 P-7 is from a few of the senators that have  
18 written letters on this issue and the Yavapai County  
19 Assessor.

20 P-8 are letters from the boards of supervisors in  
21 different counties.

22 I would like those admitted as exhibits, if we  
23 can.

24 CALJ FARMER: Okay. Thank you. I'm not sure  
25 whether the parties have had a sufficient opportunity to

1 review those, and let me just ask them now if they have or  
2 if they need more time to decide whether they want to  
3 object to the admission.

4 MR. MUMAW: Your Honor, I don't think -- at least  
5 I don't think APS needs more time.

6 We have no problem with P-4.

7 As I understand it -- and as much as I hate to  
8 because these are entries from public officials and so  
9 forth, but I think it's obvious we would have to object to  
10 Exhibits P-5 through P-8. These people obviously have a  
11 right to write letters to the Commission and make public  
12 comments to the Commission and so forth, but without the  
13 opportunity to cross-examine any of these individuals, I  
14 must object to them being introduced as evidence in this  
15 case.

16 CALJ FARMER: Any other party want to comment?

17 MR. GRANT: Judge Farmer, I would have the same  
18 objection to P-5 through P-7. Certainly these  
19 communications are routinely received by the Commission,  
20 and I'm sure that they are helpful to the Commission in  
21 many respects, but I think aptly characterized best as  
22 public comment and as an evidentiary matter, all sorts of  
23 statements that obviously are not subject to  
24 cross-examination, factual assertions that, I'm sure, are  
25 perhaps expressed in good faith, but may and likely are,

1       nonetheless, inaccurate. So I would object to P-5 through  
2       P-8.

3               On P-4, I have had just a moment to briefly scan  
4       it. I have a series of questions on whether or not the  
5       comparisons are really accurate, but in an effort to save  
6       time and abbreviate the proceeding, I will state no  
7       objection to P-4.

8               CALJ FARMER: Thank you.

9               Mr. Crockett.

10              MR. CROCKETT: Your Honor, AECC joins in the  
11       objections expressed by the attorneys for APS and AIC.

12              CALJ FARMER: Anyone else?

13              MR. HASKOVEC: The IBEW joins as well for reasons  
14       previously articulated.

15              MR. ROBERTSON: Your Honor, the Mesquite group is  
16       troubled by P-5 through P-8 for a number of the reasons  
17       that Mr. Mumaw identified. I think several of them,  
18       particularly the two letters from Senator Pearce and  
19       Senator Allen, which are contained within Exhibit P-7,  
20       really push the envelope in terms of administrative-agency  
21       flexibility on the subject of the hearsay rule.

22              Rather than join in the objection -- you have  
23       enough objection before you -- what I would like to do  
24       through you is suggest to Ms. Pecora that perhaps she  
25       offer P-5 through P-8 in the nature of public comment.



1 Because I think we do have some hearsay problems and  
2 really pushing the legality of which we interpret the  
3 rule.

4 So I will simply make that suggestion. Others  
5 have objected, and you have enough objections pending  
6 before you in connection with any ruling. Thank you.

7 CALJ FARMER: Ms. Pecora, do you understand the  
8 objections that have been raised?

9 MS. WYLLIE-PECORA: Yes.

10 CALJ FARMER: I know I suggested to you that if  
11 you wanted documents to be considered as evidence, you  
12 needed to submit them as exhibits. And the objections  
13 that are raised are valid in the sense that the people who  
14 have written these letters aren't here today subject to  
15 cross-examination. So the parties are objecting because  
16 they don't have the ability or the due process to be able  
17 to examine these statements and to determine their factual  
18 basis.

19 So did you hear the suggestion made by  
20 Mr. Robertson, and would you be willing to offer them as  
21 exhibits of public comment?

22 MS. WYLLIE-PECORA: Fine with me.

23 CALJ FARMER: Does any party have an objection to  
24 that?

25 MR. MUMAW: And, Your Honor, I'm not sure what

1 that means, but I think that means that they have been  
2 demoted from evidence to public comment, if you will. We  
3 certainly don't have any objections.

4 As I indicated before, these individuals and  
5 these public officials certainly have every right to  
6 participate or address the Commission or write to the  
7 Commission about any matter that is of concern to them.  
8 Our objection was as you have stated. So I have no  
9 problem with that procedure.

10 CHMN. MAYES: Your Honor, could I ask a quick  
11 question?

12 CALJ FARMER: Sure.

13 CHMN. MAYES: I accept your ruling, and I  
14 understand the concerns, I guess, of the parties.

15 But, Mr. Mumaw, what is the difference between  
16 Ms. Pecora offering these letters as evidence and your  
17 offering a rating agency report written by somebody who  
18 refuses to come to the Commission and offer themselves up  
19 for cross-examination by the Commissioners and the other  
20 parties?

21 We have had this issue in the past, and I have  
22 often wondered how it is that the APS gets away with  
23 offering those kinds of exhibits when those individuals  
24 refuse to come here and be cross-examined.

25 MR. MUMAW: Your Honor and Madam Chair, I would

1 agree that there is also an issue resolved in that, but in  
2 each of those instances, which I'm aware, APS offers a  
3 witness who is able to at least explain, to the best of  
4 their knowledge and based on their interaction with these  
5 agencies, what was meant by these documents.

6 CHMN. MAYES: Sure, but Ms. Pecora could explain  
7 her interaction with Senator Pearce and Senator Pearce --  
8 there are two Senator Pearces, I think, that wrote -- she  
9 could do the same. I don't understand the difference,  
10 quite frankly.

11 You know, rating agencies refuse to appear before  
12 us. You have -- I don't know if you have refused or been  
13 unable to get them to come and testify before us, but yet  
14 you are consistently able to offer that into evidence. I  
15 don't know why Ms. Pecora should be treated any  
16 differently.

17 MR. MUMAW: Well, I guess, Your Honor, Madam  
18 Chair, with all due respect, I do view there was a  
19 distinction in that we have presented witnesses that have  
20 direct familiarity with whatever factual assertions are  
21 contained in those rating reports, which as a general  
22 matter are more statements of opinion than they are  
23 factual assertions. So I think there is a distinction.

24 CHMN. MAYES: Well, Ms. Pecora could discuss the  
25 contents of the letters that she has submitted, couldn't

1 she?

2 MS. WYLLIE-PECORA: And actually, if we wanted  
3 them to testify, I'm sure I could get them on the phone.  
4 But I know we don't want to drag it out forever.

5 CHMN. MAYES: And I'm not suggesting that we do  
6 that either. We have to limit this to some degree.

7 I'm just trying to make a point here, Mr. Mumaw,  
8 which is, what is fair is fair. And I think Ms. Pecora  
9 deserves to be treated fairly.

10 MR. MUMAW: Your Honor, Madam Chair, we certainly  
11 are trying to be fair to everyone and so forth and frankly  
12 fair to my client and to the other settlement parties as  
13 well. And I view that the rating agency reports are not  
14 submitted nor are they ever submitted to prove the  
15 veracity or truthfulness of any facts asserted in there.  
16 It is to give the Commission the knowledge of what their  
17 impressions are of the rating agency's impressions.

18 CHMN. MAYES: Well, isn't Ms. Pecora offering P-5  
19 through P-8 to offer the impressions of these elected  
20 officials of our policy?

21 MR. MUMAW: I think many of those letters, if not  
22 all of them, made various factual assertions as to the  
23 impact of that policy.

24 MS. WYLLIE-PECORA: Isn't that from their  
25 perspective? And the one letter from the doctor in

1 Prescott, that was a direct -- he was stating his  
2 experience as a direct result of the Schedule 3 change.

3 CALJ FARMER: Okay. This has been an interesting  
4 discussion.

5 Ms. Pecora, as an intervenor in this case you  
6 have a right to call witnesses and to present testimony to  
7 establish facts that you want to be on the record, and you  
8 have had that opportunity and you have submitted testimony  
9 from your intervenors. So I think based upon the record  
10 you have chosen which persons you intend to testify, and  
11 you have been given that opportunity, have you not?

12 MS. WYLLIE-PECORA: Correct.

13 CALJ FARMER: And to the issue that the chairman  
14 raised, which is a good and interesting issue, the  
15 Commission in weighing all of the information before it  
16 can give the appropriate weight to whatever is presented  
17 before it. And I believe that it's in that instance that  
18 the Commission has the flexibility to decide what weight  
19 to give public comment and what weight to give evidence  
20 and testimony that is presented before it.

21 MS. WYLLIE-PECORA: Thank you.

22 CHMN. MAYES: Your Honor, I would request that if  
23 Ms. Pecora is not going to be allowed to offer these as  
24 evidence that APS also not be allowed to offer the rating  
25 agency reports as evidence in this case.

1 CALJ FARMER: Okay. Well, I'm going to go ahead  
2 and admit P-4, and I will withhold a ruling on Exhibits  
3 P-5 through P-8. We will come back to those at a later  
4 time.

5 (Exhibit P-4 was admitted into evidence.)

6 CALJ FARMER: Any other procedural issues that we  
7 need to take up at this point?

8 APS, are you ready to call your first witness?

9 MR. MUMAW: Yes, I am, but before we do that,  
10 after getting off to a slow start in the exhibit race, I  
11 have 16 exhibits that I have had marked, and I would like  
12 to indicate what they are.

13 The first 11 exhibits are our direct testimony  
14 from the original rate case. I will go through them  
15 briefly.

16 I have had the court reporter mark as Exhibit 1  
17 the direct testimony of Donald E. Brandt. I have had the  
18 court reporter mark as APS Exhibit 2 the direct testimony  
19 of William E. Avera, as APS Exhibit No. 3 the direct  
20 testimony of Daniel A. Kearns, as APS Exhibit 4 the direct  
21 testimony of Jason C. LaBenz, as APS Exhibit No. 5 the  
22 direct testimony of Peter M. Ewen.

23 CALJ FARMER: I'm sorry. What was that one  
24 again?

25 MR. MUMAW: Peter M. Ewen.

1                   As APS Exhibit 6 the direct testimony of  
2     Dr. Ronald E. White, as APS Exhibit No. 7 the direct  
3     testimony of Patrick Dinkel, as APS Exhibit No. 8 the  
4     direct testimony David J. Rumolo, as APS Exhibit No. 9 the  
5     direct testimony of David K. Pickles, as APS Exhibit  
6     No. 10 the direct testimony of Gregory A. DeLizio, as APS  
7     Exhibit No. 11 the direct testimony of  
8     Charles A. Miessner.

9                   I will hand those over to the court reporter now.

10                  I have also had the court reporter mark as APS  
11     Exhibit No. 12 the direct settlement testimony of  
12     Jeffrey B. Guldner, as APS 13 the direct settlement  
13     testimony of David J. Rumolo, as APS Exhibit 14 the  
14     supplemental direct settlement testimony of  
15     David J. Rumolo, as APS Exhibit No. 15 the additional  
16     supplemental direct settlement testimony of  
17     David J. Rumolo, and as APS Exhibit No. 16 the reply  
18     settlement testimony of Peter M. Ewen.

19                  And with that, Your Honor, I'm prepared to call  
20     Mr. Guldner to the stand.

21                  CALJ FARMER: Okay. All that testimony has been  
22     prefiled, and I haven't received any objections from it.

23                  So, Mr. Mumaw, do you want to go ahead and move  
24     them at this time?

25                  MR. MUMAW: Yes. I would like to move APS

1 Exhibits 1 through 16 at this time.

2 CALJ FARMER: APS Exhibits 1 through 16 are  
3 admitted.

4 (Exhibits APS-1, APS-2, APS-3, APS-4, APS-5,  
5 APS-6, APS-7, APS-8, APS-9, APS-10, APS-11, APS-12,  
6 APS-13, APS-14, APS-15, and APS-16 were admitted into  
7 evidence.)

8 CALJ FARMER: You may call your witness.

9 MR. ROBERTSON: Your Honor, might I inquire  
10 through you, Mr. Mumaw, am I correct in my understanding  
11 that Mr. Guldner's testimony today pertains only to the  
12 Schedule 3 issue?

13 MR. MUMAW: That was my intent, Your Honor.

14 MR. ROBERTSON: Thank you.  
15

16 JEFFREY B. GULDNER,  
17 called as a witness herein, appearing on behalf of the  
18 Applicant, having been first duly sworn by the certified  
19 court reporter, was examined and testified as follows:  
20

21 DIRECT EXAMINATION  
22

23 Q. (BY MR. MUMAW) Mr. Guldner, would you state your  
24 name and business address for the record?

25 A. Jeffrey B. Guldner, 400 North 5th Street,



1 Phoenix, Arizona.

2 Q. Mr. Guldner, by whom are you employed and in what  
3 capacity?

4 A. Arizona Public Service Company. I am vice  
5 president of rates and regulation.

6 Q. Mr. Guldner, I am going to hand you a copy of  
7 what has been previously marked as APS No. 12 and ask if  
8 you can identify that document.

9 A. This is my direct settlement testimony that I  
10 prepared in this case.

11 Q. At this time, Mr. Guldner, do you have any  
12 corrections to that testimony?

13 A. I do not.

14 Q. Mr. Guldner -- just keep it for a second -- could  
15 you identify the portions of APS Exhibit 13 that pertain  
16 to Schedule 3?

17 A. In addition, I suppose, to the general discussion  
18 of the purpose of the settlement agreement and the  
19 benefits that we see in the settlement agreement, I  
20 specifically discuss Schedule 3 on pages 15 and 16 of the  
21 testimony.

22 Q. Mr. Guldner, would it be fair to describe you as  
23 the chief negotiator on behalf of the company in these  
24 settlement negotiations?

25 A. That would be fair.

1 Q. And so with regard to Schedule 3, you would be in  
2 a position to respond to questions concerning the role or  
3 the significance of Schedule 3 with regard to the  
4 settlement?

5 A. I can explain where Schedule 3 fits into the  
6 overall settlement framework.

7 MR. MUMAW: With that, Your Honor, I really have  
8 no more direct for this witness, but I would like to  
9 proceed to our next witness before we see them in a panel  
10 as I previously discussed.

11 CALJ FARMER: Okay. That is fine to call your  
12 next witness.

13 Do you understand, Ms. Pecora, after he has done  
14 this of each of the witnesses, you can ask questions of  
15 all of them?

16 MS. WYLLIE-PECORA: Thank you, Your Honor. I do.

17 MR. MUMAW: I call Mr. David J. Rumolo.

18

19 DAVID J. RUMOLO,  
20 called as a witness herein, appearing on behalf of the  
21 Applicant, having been first duly sworn by the certified  
22 court reporter, was examined and testified as follows:

23

24

25

1 DIRECT EXAMINATION

2

3 Q. (BY MR. MUMAW) Mr. Rumolo, would you please  
4 state your name and business address for the record.

5 A. My name is David Rumolo, R-u-m-o-l-o. My  
6 business address is 400 North 5th Street, Phoenix.

7 Q. And by whom are you employed and in what  
8 capacity?

9 A. I'm employed by Arizona Public Service Company,  
10 and I'm a manager in the pricing regulation department.

11 Q. Mr. Rumolo, I'm going to hand you a copy of what  
12 has been previously marked as Exhibit No. 13 and ask you  
13 to identify that document.

14 A. Yes. This is my direct settlement testimony.

15 Q. Do you have any corrections to it at this time?

16 A. No, I do not.

17 Q. I will hand you a copy of what has been marked as  
18 APS Exhibit 14 and ask you to identify that.

19 A. Exhibit 14 is my supplemental direct testimony  
20 regarding the settlement agreement.

21 Q. And do you have any corrections to that at this  
22 time?

23 A. No, I do not.

24 Q. I'm going to hand you a copy of what has been  
25 marked previously as APS Exhibit No. 15 and ask you to

1 identify that.

2 A. Yes. This is my additional supplemental  
3 settlement testimony in this case.

4 Q. Busy man, Mr. Rumolo.

5 Could I ask you to identify those portions of  
6 your direct settlement testimony, your supplemental  
7 testimony, and your additional supplemental testimony that  
8 pertains to Schedule 3?

9 A. Yes. In the direct settlement testimony, APS 13,  
10 beginning on page 10 I have a discussion of Service  
11 Schedule 3, our line extension policy. And attachment  
12 DJR-2-S to that testimony is a calculation of the  
13 estimated impacts on the settlement revenue levels on  
14 different Schedule 3 scenarios.

15 Q. And does your previous testimony pertain at all  
16 to Schedule 3?

17 A. Yes. Exhibit APS 15 includes a draft of the  
18 Service Schedule 3, which implements the scope of the  
19 Schedule 3 changes contemplated in the settlement  
20 agreement.

21 Q. Mr. Rumolo, would it be fair to say that you are  
22 the APS witness that can respond to questions concerning,  
23 from a service-schedule standpoint, kind of the mechanics  
24 of the proposed Schedule 3?

25 A. That would be correct.

1 Q. And I will take it that you are also the APS  
2 witness who is able to respond to questions concerning the  
3 financial impact or the dollar impact, if will you, of  
4 various suggested changes to Schedule 3?

5 A. That's correct.

6 Q. Mr. Rumolo, do you have a brief summary of your  
7 entire Schedule 3 testimony?

8 A. Yes. My Schedule 3 testimony focuses on changes  
9 to what has been referred to as Version 10, which is  
10 currently the in-effect version of Schedule 3, that  
11 reflect the discussions among the settling parties on how  
12 to improve certain aspects of Schedule 3.

13 Q. Mr. Rumolo, have you had an opportunity to review  
14 the letter to the parties from the Chair dated August 5th,  
15 2009?

16 A. Yes.

17 Q. And were you asked to prepare certain responses  
18 to those questions?

19 A. Yes. I prepared responses to the relevant  
20 Schedule 3 sections of that letter.

21 MR. MUMAW: Your Honor, I'm going to ask and I'm  
22 calling to distribute two exhibits at this time, which I  
23 did not previously mark, and it's a me-bad oversight. I  
24 will ask her to do it.

25 CALJ FARMER: Off the record.

1 (Discussion off the record.)

2 CALJ FARMER: Okay. Let's go back on the record.

3 MR. MUMAW: And again, I apologize for not  
4 getting these marked earlier.

5 Q. (BY MR. MUMAW) I'm going to hand you what has  
6 been previously marked as APS Exhibit 17, Mr. Rumolo, and  
7 ask you to describe it.

8 A. Yes, this is one of the documents that I prepared  
9 in response to some of the questions raised by the  
10 Chairman in her letter. Basically it consists of four  
11 data items.

12 The first set of data shows the number of  
13 individual residential line extensions over the period  
14 2005 through 2008. It's broken down by size of projects.  
15 And again, this is just individual residential line  
16 extensions for individual customers.

17 Similarly, we provided the second data item,  
18 which is the number of individual line extensions by  
19 county for that same time period, '05 to '08.

20 Q. Let me stop you there for a second, Mr. Rumolo.

21 So the top part of the graph is all the  
22 individual residential extensions that would have  
23 benefited to one degree or the other from the 1,000 free  
24 provisions?

25 A. Yes. That was my understanding of the request in

1 the letter.

2 Q. And the second one is the total number of  
3 extensions by county for individual residential?

4 A. That's correct.

5 Q. So I take it the difference between the 5,960  
6 extensions total and the total of these other ones -- I  
7 haven't done the math -- but 5,067 plus 678, the  
8 difference between the sum of those two numbers and the  
9 5,960 would represent the, obviously, small number of  
10 extensions that did not benefit from the 1,000 free; is  
11 that correct?

12 A. Yes. Those would be the number of extensions  
13 that the cost of the extension exceeded \$25,000, which  
14 then put it into an economic feasibility test under our  
15 old extension policy.

16 Q. Would that suggest to you that the \$25,000 cap  
17 was very generous?

18 A. Yes.

19 Q. Explain page 2 then.

20 A. Yes. The top part of the second page is in  
21 response to a question raised by the Chair in her letter,  
22 and that is the total annual investment in line extensions  
23 for the same period, '05 through '08. And that includes  
24 all extensions, not just the individual ones that we have  
25 been primarily discussing over the last couple days. This

1 includes subdivisions and commercial extensions.

2 The second piece of data that we present on this  
3 page is in response to the question from the Chair  
4 regarding the impact if the current extension policy had  
5 been in play in recent times; in other words, Version 10  
6 of the extension policy had been in play for the last few  
7 years. And we compared that -- we provided that data in  
8 two ways.

9 One set of data is if it had been -- if the  
10 extensions had been booked as revenue. The second line of  
11 data represents the proceeds if they had booked as a  
12 contribution in aid of construction, or CIAC is the term  
13 that everyone utilizes.

14 Q. And, Mr. Rumolo, just as some background, is it  
15 true that the company first proposed elimination of the  
16 free-footage provisions in its 2003 rate case that was  
17 decided in 2005?

18 A. Yes. That's correct.

19 Q. And this is attempting to replicate what would  
20 have happened had in that rate case rather than the last  
21 rate case the Commission eliminated this free-footage  
22 provisions and the other free-footage provisions in  
23 Schedule 3?

24 A. That's correct.

25 Q. And the impact on residential and commercial



1 bills, how does that compare to the current rate increase?  
2 In other words, how much of the current rate increase  
3 would have been eliminated if this provision had been  
4 instituted in 2005?

5 A. If the Schedule 3 proceeds had been booked as  
6 revenue, the requested rate increase in this case would  
7 have been reduced by \$7.43 for a residential customer, and  
8 it would have been reduced by \$2.34 if it had been booked  
9 as CIAC.

10 Q. And how does that compare to the increase that is  
11 called for under the settlement? In other words, how much  
12 of that would have been obviated if this policy had been  
13 implemented sooner?

14 A. The base non-fuel rate increase that is described  
15 in the settlement agreement is, I believe, about  
16 \$196 million. If we had booked the 2007 proceeds as  
17 revenue, it would have reduced that 196 by \$173 million.

18 So a significant portion of it would have been.

19 Q. Would it be fair to say, Mr. Rumolo, when you  
20 take into consideration the reset of the PSA, the net  
21 impact would have been a rate reduction?

22 A. That's correct.

23 Q. I'm going to hand you what has been marked as APS  
24 No. 18 and ask you to identify that.

25 A. Yes. As another -- my part of another of the

1 responses to the Chair's letter, it was asked that we do  
2 research on line extension policies of other utilities to  
3 complement the set of states that the Chair had attached  
4 to her letter, and this is our efforts to research line  
5 extension policies in the other states.

6 Q. And Mr. Rumolo, just briefly, how was this  
7 compiled, from what data sources?

8 A. This is primarily compiled by our folks who work  
9 for me, my staff, going on the Internet, looking at the  
10 electric tariff of investor-owned utilities, downloading  
11 those schedules, and performing a summary of them.

12 Q. So it's fair to say it's as accurate as those  
13 individual utilities' web sites are?

14 A. That's correct.

15 MR. MUMAW: Your Honor, I would like to move for  
16 the admission of APS Exhibits 17 and 18.

17 CALJ FARMER: Are there any objections to APS  
18 Exhibits 17 or 18?

19 MS. SCOTT: No, Your Honor.

20 MS. WYLLIE-PECORA: No, Your Honor.

21 CALJ FARMER: Okay. Thank you.

22 APS Exhibits 17 and 18 are admitted.

23 (Exhibits APS-17 and APS-18 were admitted into  
24 evidence.)

25 MR. MUMAW: Your Honor, I have nothing more of

1 Mr. Rumolo at this time.

2 Pursuant to our previously-discussed procedure I  
3 would like to call my next witness.

4 CALJ FARMER: All right.

5 MR. MUMAW: I call Mr. Daniel Froetscher.

6

7 DANIEL T. FROETSCHER,

8 called as a witness herein, appearing on behalf of the  
9 Applicant, having been first duly sworn by the certified  
10 court reporter, was examined and testified as follows:

11

12 DIRECT EXAMINATION

13

14 Q. (BY MR. MUMAW) Mr. Froetscher, would you state  
15 your full name and business address for the record.

16 A. Daniel T. Froetscher, 400 North 5th Street,  
17 Phoenix, Arizona.

18 Q. And by whom are you employed and in what  
19 capacity?

20 A. I'm employed by Arizona Public Service Company,  
21 and I'm the vice president for energy delivery.

22 Q. Would it be fair to state, Mr. Froetscher, that  
23 as an operational matter Schedule 3 is administered by  
24 people that are under your supervision?

25 A. That's correct.

1 Q. And have you had an opportunity to become  
2 familiar with Service Schedule 3?

3 A. I have.

4 Q. And what is the purpose of your testimony today?

5 A. To provide some insights from an operational and  
6 policy perspective as it relates to both historic Schedule  
7 3 schedules and the currently proposed one.

8 Q. And, Mr. Froetscher, have you had an opportunity  
9 to review or hear personally the number of public comments  
10 that have been made relative to Schedule 3?

11 A. I have. I attended the public comment session  
12 held in Prescott and then again the one held here at  
13 1200 West Washington about a week and a half ago.

14 Q. And with regard to the session that was held in  
15 Flagstaff, did you have opportunity to review the  
16 transcript of that proceeding?

17 A. I did.

18 Q. And you are aware that there were a number of  
19 criticisms made by various speakers concerning Schedule 3.

20 A. I certainly am aware of that, yes, sir.

21 Q. And what was your general reaction to those  
22 comments?

23 A. I believe it's fair to characterize those  
24 comments or -- characterize those comments in a couple key  
25 areas.

1           Clearly we heard about the financial hardship  
2   that has been placed upon individual customers as it  
3   relates to their needs for extensions for electrical  
4   service. I believe it's fair to say that price  
5   transparency as it relates to the cost of extending  
6   services was expressed in a number of venues, similarly  
7   price consistency associated with the line extension  
8   costs. The issue of whether or not the use of third-party  
9   contractors should be allowed to construct facilities on  
10   APS's electric distribution system was raised as well.

11           And I think it's fair to say that the overall  
12   tenor of this issue would be described as just a broader  
13   public policy issue as to whether or not line extension  
14   costs should be socialized or borne by the party  
15   requesting service.

16           Q. Now, the lateral issues, Mr. Froetscher -- they  
17   are kind of the policy issues as to who pays and what are  
18   the economic implications of the answer of the "who pays"  
19   question -- are those questions that you are prepared to  
20   address?

21           A. I certainly can comment on them, Counselor, but I  
22   believe Mr. Ewen and Mr. Rumolo, Mr. Guldner will also  
23   weigh in on those issues in their testimony.

24           Q. What is your response to the overall claim of  
25   financial hardship by certain property owners?

1           A.   Well, I don't think there is any question, as we  
2   have heard from a number of customers, that the cost of a  
3   new line extension can be significant to the individual  
4   property owner. The company certainly recognizes that,  
5   recognizes that this has not been an easy transition from  
6   a 1,000-foot free to the current policy. But we also  
7   believe that the settlement agreement as crafted by the  
8   parties addresses many of these issues and that it is,  
9   candidly, the best public policy to move forward in that  
10   regard.

11          Q.   From an operational standpoint does the policy of  
12   providing free footage have unintended consequences that  
13   have not been previously discussed during these public  
14   comment sessions?

15          A.   It's my belief that there are, what I would  
16   better characterize as some hidden or unseen costs  
17   associated with the 1,000-free-footage policy that have  
18   not yet necessarily surfaced in the public meetings that I  
19   attended nor in the transcripts that I have read.

20                From an electric distribution facility  
21   standpoint, the 1,000-free-footage policy does not --  
22   certainly does not encourage in-fill. We could probably  
23   debate whether or not it encourages sprawl or not, but it  
24   certainly does not encourage in-fill.

25                I have spent 12 years of my APS life -- five in

1 Prescott and seven in Casa Grande -- and have some pretty  
2 good experience with different county board of supervisors  
3 and the struggles that those counties have experienced  
4 with what are called wildcat subdivisions, and the  
5 1,000-free policy aligns well with some of the issues that  
6 have been raised from a county perspective as it relates  
7 to wildcat subdivisions.

8 And from an electric-load-serving perspective,  
9 quite frankly, the 1,000 policy can lead to the creation  
10 of what I will call load pockets, clusters of residential  
11 customers located at the far end of a line who, because  
12 services extended incrementally and in an unplanned or  
13 unorganized basis, creates some real operating and service  
14 challenges and ultimately infrastructure challenges for  
15 the utility.

16 Q. I believe you were here yesterday when  
17 Mr. Merritt testified?

18 A. I was not, Counselor.

19 Q. Okay. I believe his testimony indicated that  
20 generally the extensions were incrementally, one person  
21 would extend and there would be extension off of that and  
22 extension off of that and so forth and so on.

23 Would that lead to precisely the situation you  
24 just described?

25 A. Certainly. My experience has also been that

1 customers under the Revision 8, or the policy that was in  
2 place prior to the July '07 and February '08 changes, it  
3 was not unusual for customers under that policy to pair  
4 up, if will you. Each customer was allocated 1,000 foot  
5 free. Two or three customers getting together could  
6 essentially leverage that into a 2,000 or 3,000 extension.  
7 So there was dynamics like that that were not uncommon  
8 under what we commonly referred to as revising.

9 Q. And, Mr. Froetscher, is what you have described  
10 as these mini-load pockets, is that just a hypothetical  
11 concern or has that actually happened?

12 A. No, sir. That is not hypothetical. There are  
13 several couple of examples that in the space of a minute  
14 or two I could describe for you where that has been very  
15 real.

16 Q. Let me ask you this: I believe there has been a  
17 suggestion by one or more Commissioners that there should  
18 be a workshop conducted on the whole issue of line  
19 extensions in that it should address a broad variety of  
20 issues, not simply the issue of whether there should or  
21 should not be some sort of footage or dollar or whatever  
22 allowance.

23 What comments do you have on that suggestion?

24 A. Frankly, I think it's a good idea. To me this is  
25 not just an APS issue; this is a broader issue across the



1 jurisdictional utilities in the state of Arizona.

2 It's not an issue, obviously, that should be  
3 taken lightly, nor has it been. I think the Commission is  
4 in a very unenviable position in terms of trying to change  
5 public policy in this regard, as is APS. Yet, I also  
6 believe, frankly, that 1,000 free is too liberal and that  
7 those costs shouldn't be socialized across the 1.1 million  
8 customers that APS is already serving.

9 I think a workshop or some sort of discussion  
10 along those lines would be healthy for all the parties.

11 Q. You indicated that one of the other issues that  
12 you identified from the public comment was concerns over  
13 the lack of transparency.

14 How do you believe that the settlement has  
15 addressed that?

16 A. Transparency in pricing, at least via the  
17 settlement, will be provided through the schedule of  
18 charges.

19 Prior to July of '07 and Revision 9 and then  
20 consequently February of 2008 and Revision 10, the costs  
21 associated with constructing new facilities to serve rural  
22 residential customers frankly didn't get a lot of  
23 attention. One reason was obviously because if the  
24 customers were within 1,000, they didn't pay anything.  
25 And the second part of that is that for extensions that

1     were greater than 1,000 but less than 2,000 feet, there  
2     was a fixed price per foot that the customer contributed  
3     for the excess footage over the 1,000.

4             We have heard clearly, and I certainly agree with  
5     it, that it's different for customers to anticipate what  
6     kind of costs might be associated with extending power to  
7     their homes under the current policy and think that the  
8     schedule of charges as prepared by the company, via the  
9     settlement agreement, will provide that transparency that  
10    will help customers better understand and plan what is,  
11    from a cost standpoint, necessary in order to extend  
12    services into their property.

13            Q.    And the last general area, Mr. Froetscher, there  
14    has been a suggestion by several of the commentators that  
15    the company should allow third-party contractors to do  
16    additional work on this or to do more work.

17            Let me ask you, with regard to underground, is it  
18    true that the company already permits third-party  
19    contractors to do what is termed nonelectrical work?

20            A.    Yes.  If I understand the question, earthwork,  
21    trenching, conduit, anything associated with the extension  
22    of underground line extensions, for years has been the  
23    purview of the customer, meaning the company does not  
24    dictate who the customer shall use for excavation,  
25    trenching, and conduit installation.  The customer has

1     that choice, has had that choice, and makes those  
2     selections and has historically.

3           Q.     What's the case with regard to the overhead  
4     electrical work?

5           A.     Overhead electrical work has been constructed by  
6     the company and its personnel or with contractors  
7     selected, screened and approved by the company. But the  
8     company has been the operating agent on overhead line  
9     construction and on the installation of the wire  
10    transformers and associated hardware for underground line  
11    extensions after the customer has provided the trenching  
12    and conduit.

13          Q.     Mr. Froetscher, what is the company's position  
14    with regard to the use of customer-selected third-party  
15    contractors to do overhead electrical work?

16          A.     You know, my responsibilities, Mr. Mumaw,  
17    involves the construction and the operation and  
18    maintenance of the company's electric distribution  
19    facilities, and it's not a responsibility we take lightly.  
20    And, frankly, from a reliability and service standpoint,  
21    we are extremely proud about the work we have performed  
22    over the years.

23                 I have significant concerns about the use of  
24    third-party contractors for electrical work on the system  
25    unless there are some parameters established, particularly

1 those that will ensure that the company has some sort of  
2 qualifying or approval process associated with the  
3 screening of those contractors.

4 Q. Could you indicate what some of those parameters  
5 are?

6 A. Well, there clearly are employee qualifications  
7 in terms of whether or not employees carry journeyman  
8 tickets or have journeyman status or not, have received  
9 the sufficient training and instruction in terms of how to  
10 construct either overhead or underground electric  
11 facilities.

12 From a broader perspective, there are -- without  
13 such approval or qualifying, I have concerns about safety.  
14 I have concerns about the reliability of the systems then  
15 that the company would be taking on as constructed by  
16 third-party contractors. I have concerns about associated  
17 liability issues. I have concerns about warranty issues.

18 Q. One term you use that I know is familiar to the  
19 people in the electric industry, but what does it mean to  
20 be a journeyman?

21 A. A journeyman lineman or a journeyman electrician  
22 has gone through, typically, a four-year apprenticeship,  
23 State certified in Arizona and State certified in other  
24 states. There are also a handful of third-party linemen  
25 colleges that provide similar certifications. But it is a

1     qualification and certification process for the crafts and  
2     skills associated with the electric industry.

3           Q.     Would it be kind of a no-brainer, if you would,  
4     Mr. Froetscher, at least from your part, that such third  
5     parties would also have to have specific licences and  
6     bonding and insurance and so forth?

7           A.     Yes. I'm sorry. I didn't hear the first part of  
8     your question here.

9           Q.     Would it be fairly obvious that you would expect  
10    these third parties to be licensed, bonded, and insured?

11          A.     Licensed, bonded, insured. There is  
12    indemnification issues as well that needs to be  
13    considered. We have had some of our municipalities in the  
14    past asking APS to indemnify the trenching and conduit of  
15    the contractors who do work in the public right-of-ways,  
16    and that has been a path we have been unwilling to go  
17    down.

18          Q.     What about the use of materials and equipment by  
19    such third-party contractors?

20          A.     Again, since APS bears the responsibility for the  
21    operation and maintenance of the system once constructed,  
22    compatibility in terms of material and equipment and  
23    construction methods is absolutely critical. There are  
24    several dozen different ways to build an overhead power  
25    line, and clearly APS over the years has narrowed those

1 options down to certain materials and specification and  
2 construction standards in an effort to approve its  
3 efficiency. And we would fully expect that the  
4 construction by any third-party agent would need to be  
5 consistent in terms of material selection and similar  
6 construction standards.

7 Q. And would it be your recommendation that this  
8 third-party work would be both supervised and inspected by  
9 APS personnel?

10 A. Absolutely. I would expect the work to be  
11 inspected and supervised by APS personnel.

12 And again, even that does not alleviate my  
13 concerns about having a pool of third-party contractors  
14 who have been prequalified or preapproved by the company  
15 based on their experience in the industry, qualifications  
16 of personnel, experience in some of the other items I  
17 mentioned earlier.

18 Q. And why do you still have those concerns?

19 A. Those concerns are embedded again in the  
20 fundamental issue of, as the agent responsible for  
21 operating and maintaining the system once constructed, I  
22 want to ensure that I'm receiving a system that is  
23 constructed by qualified personnel, and I have the other  
24 issues about coordination and personnel safety as it  
25 relates to third-party contractors working on our system

1 without preapproval or authority. I want to make sure  
2 people are safe and that we have got the right people  
3 doing the work on the system irrespective of whether the  
4 company provides that resource or a third-party contractor  
5 does.

6 Q. Mr. Froetscher, I believe you indicated  
7 previously that APS on occasion also uses outside  
8 contractors to do this sort of work.

9 Is that true?

10 A. It is.

11 Q. And could we have a situation in which APS  
12 essentially designated, you know, four or five or six,  
13 whatever it would be, outside contractors that were  
14 acceptable to it and then allow the customer to select  
15 from that group?

16 A. Absolutely. Again, the company outsources some  
17 of its own electrical work today and has for years. There  
18 are five, six, seven, eight prequalified, preapproved  
19 electrical contractors in the Valley who perform that work  
20 on our behalf. They are agents. They operate under our  
21 accident prevention manual. They understand our safety  
22 and working rules. And we have a level of comfort and  
23 confidence in the work that they perform.

24 That same pool, or any such pool of contractors,  
25 provided they are qualified and preapproved by APS, I

1 think bring to the table then the competitiveness and the  
2 customer choice, if you will, to ensure that APS with its  
3 own personnel or its own pricing mechanisms isn't  
4 monopolizing the market.

5 Q. Do you believe that that sort of system would  
6 allow both APS and, by extension, this Commission to  
7 retain some control over the extension process?

8 A. Well, I think the settlement in general brings a  
9 couple provisions that help in that regard.

10 The first is the schedule of charges. So from a  
11 price transparency standpoint, the schedule itself is  
12 transparent. I believe that the company is wide open to  
13 the appropriate Commission scrutiny and review regarding  
14 the elements that contribute to the costs that are defined  
15 within that schedule. So there is oversight, checks and  
16 balances, and transparency in terms of the pricing itself  
17 if APS is to construct the facilities.

18 And from a customer choice and competitive  
19 standpoint, again, I don't object to the use of  
20 third-party contractors. Having said that, I feel my own  
21 personnel, quite frankly, build a better quality and more  
22 cost-effective product. But I don't object to the use of  
23 third-party contractors given some of the parameters that  
24 we talked about in terms of preapproval or qualifying to  
25 ensure that we have people who are trained and experienced



1 and capable of doing the work participating in that arena.

2 Q. Mr. Froetscher, given the various issue and  
3 caveats and so forth that you placed on this issue of  
4 third-party contractors, do you believe that there would  
5 be some value in working out those issues in some sort of  
6 a workshop context?

7 A. I do. You know, as I prepared for this  
8 particular opportunity we did a little looking and there  
9 are some other utilities across the country -- and I  
10 didn't get a chance to take an extensive look -- but there  
11 is clearly some third-party contracting going on in other  
12 parts of the country. I think it would be worth, again,  
13 if the Arizona utilities, Commission Staff, the union  
14 locals, a representative or representatives from the  
15 customer or client base, to get together and talk about  
16 how a framework can be put into play to ensure that  
17 customers feel as though they have some alternatives  
18 rather than just the default APS construction crews.

19 Q. If you had the opportunity to determine in these  
20 other jurisdictions that you indicated allow other certain  
21 conditions, third-party contractors, how is that working  
22 out for both the company and the customers?

23 A. I frankly haven't talked to any customers in any  
24 of those areas and haven't had direct conversation with  
25 the parties involved.

1           Again, we pulled and looked at a couple of  
2   service schedules for some other utilities where the  
3   parameters around third-party contracting were defined.

4           Q.   Do you believe it would be helpful to have some  
5   insight from these other utilities and other jurisdictions  
6   as to how this is actually working?

7           A.   You know, if someone has experience in this arena  
8   already, Mr. Mumaw, I certainly don't see any reason why  
9   it wouldn't be in everybody's best interest to bring  
10   representative from those companies in to talk about those  
11   very issues.

12          Q.   Thank you. Mr. Froetscher, is there anything I  
13   haven't asked you about that you feel you need to say?

14          A.   No -- only that -- particularly on the  
15   third-party piece, again, I think it's a slippery slope to  
16   go down unless there is a good solid look, taking a look  
17   at what those parameters are.

18                Again, the responsibility -- we can bemoan the  
19   fact that APS is a monopoly and customers have no choice.  
20   The flip side to that is I have a responsibility and an  
21   obligation that extends beyond simply the construction of  
22   new facilities. And that same set of personnel that  
23   customers are complaining about are too expensive are the  
24   personnel who responded during a series of storms  
25   July 19th through July 23rd that takes out 166 power poles

1 and knocks out service in Dateland, Gila Bend, and parts  
2 of Buckeye and Ajo and things of that nature.

3 So, you know, the competitive needs and the price  
4 transparency needs are fair and need to be addressed; on  
5 the other hand, we need to be careful that we don't move  
6 down a path where, frankly, simply the look at the 400- or  
7 500- or 600-foot line extension is the consideration here  
8 and instead the broader utility responsibility for taking  
9 care of the customers, not only when they seek service,  
10 but after they received service isn't lost in the haze of  
11 the fog.

12 MR. MUMAW: Thank you, Mr. Froetscher.

13 Your Honor, I have no more additional questions  
14 of this witness, and again, would like to move on to my  
15 next witness.

16 CALJ FARMER: Okay. Is he going to be giving a  
17 summary? I'm thinking about a break.

18 MR. MUMAW: No.

19 CALJ FARMER: Okay. Let's bring him up, and then  
20 we will take a break before so we can come back at 10:30  
21 for the telephone call.

22 MR. MUMAW: I would call Mr. Ewen.

23

24

25

1 PETER M. EWEN,  
2 called as a witness herein, appearing on behalf of the  
3 Applicant, having been first duly sworn by the certified  
4 court reporter, was examined and testified as follows:

5

6 DIRECT EXAMINATION

7

8 Q. (BY MR. MUMAW) Mr. Ewen, would you state your  
9 name and business address for the record.

10 A. Yes. My name is Peter Ewen. My business address  
11 is -- without the frog -- is 400 North 5th Street,  
12 Phoenix, Arizona.

13 Q. Mr. Ewen, by whom are you employed and in what  
14 capacity?

15 A. I'm employed by Arizona Public Service Company as  
16 their chief economist and manager of the revenue and fuel  
17 analysis and forecast group.

18 Q. Mr. Ewen, I'm going to hand you a copy of what  
19 has been previously marked as APS Exhibit 16 and ask that  
20 you identify it.

21 A. Yes. This is the reply settlement testimony that  
22 I filed in this case or that was filed on my behalf in  
23 this case.

24 Q. Mr. Ewen, at this time do you have any  
25 corrections to that testimony?

1           A.    I do not.

2           Q.    Mr. Ewen, could you provide just an extremely  
3    brief overview of what your testimony states?

4           A.    Yes. My testimony was prepared to respond  
5    principally to the Pollack report prepared by Mr. Merritt  
6    that insinuated that the change in the line extension  
7    policy was having severe consequences for the Arizona  
8    economy, and I rebuttal that assertion.

9           MR. MUMAW: Thank you.

10           Your Honor, again, I have nothing further for  
11    Mr. Ewen. And I would suggest that he be excused, and  
12    then after we have our next two witnesses, we bring back  
13    these four witnesses to respond to questions from the  
14    parties and from the bench.

15           CALJ FARMER: Okay. Let's go ahead and take a  
16    break here, and we will come back at 10:30 with the  
17    intervenor Pecora's witness, Mr. Lawson.

18           (Whereupon, a recess was taken from 10:15 a.m.  
19    until 10:38 a.m.)

20           CALJ FARMER: Let's go ahead and go back on the  
21    record.

22           Ms. Pecora, are you ready to call your next  
23    witness.

24           MS. WYLLIE-PECORA: I am. Thank you, Your Honor.

25           Joel Lawson, this is Barbara Pecora. I am going

1 to be asking you questions, but the court reporter will  
2 swear you in first.

3

4

JOEL LAWSON,

5 called as a witness herein, appearing on behalf of  
6 Intervenor Pecora, having been first duly sworn by the  
7 certified court reporter, was examined and testified as  
8 follows:

9

10

DIRECT EXAMINATION

11

12 Q. (BY MS. WYLLIE-PECORA) Thank you.

13 Do you have your testimony in front of you,

14 Mr. Lawson?

15 A. I do.

16 Q. Would you like to go ahead and -- did you prepare  
17 this testimony yourself?

18 A. Well, yeah, I put it together.

19 Q. Okay. Would you like to read it for me -- but  
20 read it, please, slowly because the court reporter is  
21 listening.

22 A. Okay. My name is Joel Lawson, Jr. I'm the  
23 principal owner of Integrity Realtor & Associates, LLC.  
24 Our addresses are located at 8511 Concho Highway and  
25 110 North Maine in Snowflake, Arizona.

1 I'm the principal owner and designated broker of  
2 Integrity Realty & Associates. I have served several  
3 years on the Board of Directors of the White Mountain  
4 Association of Realtors, and I'm currently the president  
5 elect. I have taken courses in appraisal at the Appraisal  
6 Institute. And although I don't claim to speak for Navajo  
7 County, I have spent several years on the Navajo County  
8 Planning and Zoning Commission; I'm currently the vice  
9 chairman of the commissioner.

10 I have sold many, many acres of property. I'm  
11 under oath, so I will say approximately 1,000 escrows that  
12 I have been the owner or the broker supervising over or  
13 where I sold myself.

14 Integrity Realty has quite a bit of experience  
15 dealing with power companies and power extensions. We  
16 often sell property on power, but we sell property that  
17 is -- we often sell property that is from a couple feet to  
18 several miles from power.

19 We are often asked what buyers can expect  
20 concerning the cost for extending power for domestic use  
21 or if they can realistically expect to obtain grid power  
22 at a reasonable and practical power. Instead of answering  
23 directly we now refer them to the utility company, APS  
24 usually, sometimes Navapache, where they tell me they have  
25 been told recently that they must pay \$500 nonrefundable

1 in order to get an answer.

2 In my opinion, I have seen many property owners  
3 have their property devalued due to the current policy  
4 that APS and the Corporation Commission and other  
5 utilities have adopted eliminating the 1,000 free power  
6 extension. What I considered to be a customer service at  
7 no charge, I understand can now cost 15- to \$20,000.

8 This means that those who bought property  
9 believing that they could extend power at little or no  
10 cost may have property that they cannot afford to build on  
11 due to the cost of power.

12 As a citizen of our state, I believe this policy  
13 will nearly stop development, especially for individuals,  
14 and from what I understand add 15- to \$20,000 to the price  
15 of a home built by a developer.

16 Although the developers will be less impacted  
17 because they can spread the cost a little and will just  
18 pass the cost on to the buyer of the product, if they can.  
19 Devalued land means lower taxes as prices drop, and I  
20 think that is going to affect our state.

21 I also think that this will affect individuals  
22 more than it will the developers, especially in rural  
23 areas. I think it disproportionally affects those in  
24 rural areas. Those in rural areas don't have developers  
25 in their areas as big cities do, in my opinion. It will



1 greater affect those that may have property that they  
2 planned to provide to their children for homes. Again, in  
3 my opinion, the property will no longer be a value to the  
4 children due to the cost of extending power, even a short  
5 distance.

6 That's it.

7 Q. Thank you. I have a couple of questions that I  
8 would like to ask you.

9 A. Okay.

10 Q. Approximately -- well, you already answered about  
11 the 1,000 transactions.

12 Can you tell us some of the areas in the state  
13 that you have been involved in these land transactions?

14 A. Yeah. All over Navajo and Apache County. I'm  
15 mostly in Snowflake and Concho. I have done some in  
16 Vernon, White Mountain Lakes.

17 Q. Thank you.

18 When a potential client calls you to list their  
19 vacant land and asks your opinion of the value, how do you  
20 respond?

21 A. Well, one of the questions I ask is what -- if it  
22 has power, and I generally -- if it doesn't have power, I  
23 give them a different response than I would if it had  
24 power.

25 Q. Okay. So the location of the power has a direct

1 relationship to what you would see as value of the  
2 property?

3 A. Certainly is what I would tell them, yes.

4 Q. Okay. When you show a prospective buyer a piece  
5 of property, what questions do they usually have?

6 A. Well, they ask if they can pass the percolation  
7 test for a septic system. They ask what the cost of a  
8 well is or if there is access to water. And then they ask  
9 what it would cost to get power.

10 Q. And what do you tell them on the cost of power?

11 A. Well, like I said, I used to feel fairly  
12 comfortable giving them some kind of idea, but now I tell  
13 them they need to call the power company. I have been  
14 told recently that they are told they have to put up \$500  
15 nonrefundable before getting an answer, which most of them  
16 don't do or a lot of them don't do, I should say.

17 Q. Okay. Do you know of anyone right now in the  
18 area that you work in that is doing line extensions?

19 A. I hear a lot from people as it goes through the  
20 office and things of that sort. The most recent ones were  
21 done through my associates, and I have heard parts of it.

22 Q. So there are some line extension being done?

23 A. Well, being inquired, but I don't know that  
24 anybody is actually doing them right now.

25 Q. Okay. What do you foresee people -- how many

1 people do you see doing line extensions under the current  
2 policy in the next year or two?

3 A. Well, there will be certain people, I think, with  
4 a pocket full of money who have the money to do what they  
5 want, and if they want it bad enough, they will spend what  
6 they have to. But I think a great deal of people will  
7 forego it. I don't see a whole lot.

8 Q. Okay. Thank you. That is the end of mine.

9 Is there anything you would like add, Joel?

10 A. Well, as an individual, in 1986 I was the  
11 recipient of a 1,000 power extension. We moved to a piece  
12 of property that was right on about 1,000 away. We got  
13 our power, but we put in a home for my mother, we put in a  
14 home for myself, and several years later we put in a home  
15 for my mother-in-law, all within 300 or 400 feet from each  
16 other approximately.

17 And two of those homes for about 22 years we have  
18 been paying the power bill. And I'm guessing that my  
19 mother-in-law's home has been there approximately  
20 15 years. We have been paying the power bill for that.  
21 Four other people in the general vicinity hooked on after  
22 we hooked on, so I feel like that probably the power that  
23 we've used and in the bills we've paid have helped others  
24 get theirs later on to repay for the people who helped us  
25 get ours by paying bills earlier.

1 MS. WYLLIE-PECORA: Okay. Thank you.

2 Now there will be other questions.

3 THE WITNESS: Okay.

4 CALJ FARMER: Mr. Pecora, do you want to move to  
5 admit his testimony as an exhibit?

6 MS. WYLLIE-PECORA: I would like to move to admit  
7 his testimony as Exhibit P-9.

8 CALJ FARMER: Are there any objections to that?

9 MR. MUMAW: None, Your Honor.

10 CALJ FARMER: Hearing no objections, Exhibit P-9  
11 is admitted.

12 (Exhibit P-9 was admitted into evidence.)

13 Do any of the parties have questions for this  
14 witness?

15 MR. MUMAW: Your Honor, I think just two.

16 CALJ FARMER: Okay. These questions, Mr. Lawson,  
17 are coming from the attorney for APS, Mr. Mumaw.

18 THE WITNESS: Okay.

19

20 CROSS-EXAMINATION

21

22 Q. (BY MR. MUMAW) Good morning, Mr. Lawson.

23 A. Good morning, sir.

24 Q. You indicated that you weren't aware of anyone  
25 doing extensions right now.

1           Were you referencing solely to the APS service  
2     territory or did that also encompass the Navapache service  
3     territory, with which I think you expressed some  
4     familiarity?

5           A.   Well, I guess my answer to that is, you know, I  
6     hear things all the time, but anything I could testify to  
7     that I knew somebody specifically was doing a power  
8     extension, no, in both areas.

9           Q.   Okay. And that encompasses both areas; is that  
10    correct?

11          A.   Yes.

12          Q.   And do you know anything about the Navapache  
13    extension policy?

14          A.   That actually -- APS is more consistent up until  
15    a few years ago, and Navapache had a whole bunch of  
16    different ways of going. They would sometimes tell people  
17    that they would have to pay a certain amount of their  
18    bill, whether they used power or not, for a certain period  
19    of years. And then sometimes -- and again, they don't  
20    talk to realtors, so I have to go by other what other  
21    people tell me, my clients. But they would sometimes tell  
22    them that they would pay for footage. One time I think  
23    they were at 600 and APS was at 1,000. That is going by  
24    memory.

25          Q.   Okay. Thank you, Mr. Lawson.

1           And with regard to the fee that is charged for  
2   when you request a cost estimate from the company, you are  
3   aware, are you not, that that provision was in Schedule 3  
4   even prior to the elimination of free footage?

5           A.   I wasn't aware of that because I never heard of  
6   it until the last couple years. Prior to that -- in fact,  
7   I did a line extension for the office when we put our  
8   office in, and we did have to pay some money, but we  
9   didn't have to pay anything to find out what it was going  
10   to cost us.

11           MR. MUMAW: Okay. Thank you, Mr. Lawson. I have  
12   no more questions.

13           CALJ FARMER: Any other parties have questions?

14           Okay. Mr. Robertson.

15           Mr. Robertson is the attorney for Mesquite.

16

17                           CROSS-EXAMINATION

18

19           Q.   (BY MR. ROBERTSON) Good morning, Mr. Lawson.  
20   How are you?

21           A.   Fine. How are you, sir?

22           Q.   I'm very fine. Thank you for asking.

23           Mr. Lawson, let me give you a little bit of  
24   background to some of the questions I'm going to be asking  
25   you.

1           The evidence developed in this proceeding thus  
2   far indicates that the current line extension policy at  
3   APS was the result of a change that the Commission made in  
4   APS's line extension policies in 2007 in a previous rate  
5   case. And during the course of this hearing it has been  
6   suggested that in the event that the Commission should  
7   decide in this case it is not going to change the policy  
8   decision it made in 2007, but that perhaps there should be  
9   a workshop moving forward during which interested parties  
10   could offer comment and information to the Commission as  
11   to whether or not it should revisit this subject and  
12   perhaps modify the current policy.

13           Let me ask you against that background, in the  
14   event that the Commission should decide in this case not  
15   to change the current line extension policy but to conduct  
16   such a workshop, would you be willing to participate in  
17   such a workshop?

18           A.   Schedule allowing, yes.

19           Q.   I'm sorry. I couldn't hear. If your schedule  
20   would allow you?

21           A.   Yes.

22           Q.   And if your schedule wouldn't allow you to  
23   participate directly, would you be willing to submit  
24   information?

25           A.   Again, if my schedule allows me. Currently in

1 the current real estate market if there is business to do,  
2 that has to come first, but I really would try help if I  
3 could.

4 Q. All right. And do you think that a workshop of  
5 that nature would be a positive development?

6 A. Well, I personally would like to see the  
7 extension reinstated, but there is no sense if there is  
8 absolutely no way to do that to rule out trying to find a  
9 better way.

10 Q. Well, just to reiterate, my question assumed for  
11 purposes of the question that the Commission decides not  
12 to change the policy within the context of this current  
13 rate case.

14 Against that background and assumption, do you  
15 believe a workshop would be a positive step on the part of  
16 the Commission?

17 A. Yes.

18 Q. Let me ask you one other area, sir.

19 You indicated confusion on the part of people as  
20 to exactly what to expect from APS in the way of charges  
21 and information.

22 One of the specific provisions of the settlement  
23 agreement that is before the Commission at this time --  
24 it's paragraph 10.7 -- provides as follows -- and I will  
25 read it to you: "APS shall submit a revised Schedule 3 to



1 reflect the following modifications before the hearing in  
2 this case: No. 1, a clarified definition of local  
3 facilities; No. 2, a schedule of charges; No. 3, a  
4 statement that quotes provided to the customers will be  
5 itemized; and No. 4, procedures for refunding amounts to  
6 customers when additional customers connect to the line  
7 extension."

8 Do you believe those changes to the current  
9 practice would be of assistance to you and those you  
10 represent?

11 A. I suppose I would have to say yes; at least they  
12 would know what they were getting charged for, and I think  
13 it would also shed some light on just how much they are  
14 charging people to do extensions.

15 MR. ROBERTSON: Mr. Lawson, that is all I have.  
16 Thank you very much.

17 CALJ FARMER: Does any other party have a  
18 question for the witness?

19 Okay. Ms. Pecora, did you have anything further  
20 that you wanted to ask your witness?

21

22 REDIRECT EXAMINATION

23

24 Q. (BY MS. WYLLIE-PECORA) Mr. Lawson?

25 A. Yes.

1 Q. If they did have a workshop dealing with this  
2 issue after this rate case, would you be willing to  
3 participate?

4 A. Yes.

5 Q. Thank you.

6 A. Schedule allowing.

7 MS. WYLLIE-PECORA: That is all I have.

8 CALJ FARMER: Thank you, sir, for your testimony  
9 and for being flexible. I know you were scheduled  
10 previously, and I appreciate you being able to call in  
11 today.

12 THE WITNESS: You are welcome.

13 CALJ FARMER: Thank you. We will disconnect you  
14 now.

15 Ms. Pecora, are you prepared to call your next  
16 witness?

17 MS. WYLLIE-PECORA: Thank you. I am.

18 Mr. Carl Faulkner, please.

19

20 CARL R. FAULKNER

21 called as a witness herein, appearing on behalf of  
22 Intervenor Wyllie-Pecora, having been first duly sworn by  
23 the certified court reporter, was examined and testified  
24 as follows:

25

1 DIRECT EXAMINATION

2

3 Q. (BY MS. PECORA) Thank you for coming,  
4 Mr. Faulkner, all the way from Douglas.

5 Do you have the testimony in your hand that you  
6 prepared?

7 A. I do.

8 Q. And did you prepare that or was it prepared under  
9 your direction?

10 A. I prepared it.

11 Q. And do you have any changes or additions that you  
12 would like to add? Because I think it would be  
13 advantageous to read the report.

14 A. I do have some additions to my comments that are  
15 line items as we go through it.

16 Q. Would you feel comfortable in just going ahead  
17 and reading the report?

18 A. Yeah.

19 Q. That would be fine. Thank you.

20 A. My name is Carl Faulkner. I reside in Douglas,  
21 Arizona. I'm a land developer and general contractor. I  
22 am managing member of Sonora Development, LLC. I  
23 supervise the Arizona projects for our company.

24 I have been involved in construction for nearly  
25 40 years. Our company has developed and built

1 residential, commercial products, including single and  
2 multifamily residential developments, Class A and B office  
3 developments, warehouses, golf courses, hotel, medical  
4 facilities, et cetera.

5 I have objections to the Schedule 3 policy of APS  
6 for the following reasons: The immediate and most obvious  
7 impact of the development of the Schedule 3 policy changes  
8 is that it limits growth, in my view. More precisely the  
9 current Schedule 3 policy harms land development and new  
10 construction in general and specifically adversely impacts  
11 rural Arizona because of poor market conditions, sparse  
12 population, and distances from electric power service.

13 I would like to elaborate on these impacts. I  
14 would like to address just four issues in which the  
15 current Schedule 3 policy has adversely impacted our  
16 company and have and will adversely impact the public in  
17 general.

18 The approval of the current Schedule 3 policy by  
19 design or by chance has expanded, what I believe, to be an  
20 unregulated monopoly. Now, that may be harsh language,  
21 but in terms of what I think the violations of the -- and  
22 I'm no attorney, and so hopefully I can articulate my  
23 feeling. Whether they are in line with the law or not,  
24 all of the attorneys that are here, and there seems to be  
25 quite a few representing APS, and others with similar

1 interests --

2 I believe that under the provision of Schedule 3  
3 APS is not regulated in its daily operations and  
4 activities, and APS may do whatever it deems in its best  
5 self-interest relating to the installation and upgrading  
6 of its facilities.

7 Paragraph 2 of Schedule 3 states, "All extensions  
8 shall be made in accordance with good utility construction  
9 practices as determined by APS and are subject to the  
10 availability of adequate capacity, voltage, and company  
11 facilities at the beginning point of an extension as  
12 determined by the company."

13 Since APS determines what schedule, materials,  
14 and labor for all line extensions, the builder/customer is  
15 at the mercy of APS to install facilities in a timely  
16 manner at the most reasonable cost. It is, in my opinion,  
17 absurd to believe that APS, a company for profit, will  
18 give more than a passing glance at cost when they do not  
19 have to pay them. This is unbridled expansion of  
20 facilities.

21 Of course they want their facilities state of the  
22 art and upgraded at their will. There are no competitive  
23 material or labor bids. There is no competitive  
24 contractor who is allowed to do the construction of the  
25 facilities, only APS construction crews, which are paid

1 APS wages, using constantly upgrade equipment as  
2 determined by APS at their sole discretion, et cetera.

3 There is no oversight, no regulatory agency, no  
4 appeal. It is as determined by APS, the company. I  
5 understand having heard -- I'm sorry I don't remember your  
6 name -- but there has been a suggested modification  
7 schedule to Schedule 3. I think that is certainly a  
8 helpful point that addresses this issue to some degree.  
9 But there is no oversight for that other than whatever APS  
10 creates to show their costs in terms of whatever  
11 facilities they determine they need or want.

12 Sonora Development is licensed in Arizona to  
13 perform much of the labor required for installation of APS  
14 facilities. We can provide comparable equipment and  
15 materials at a significantly lower cost than APS, but  
16 under this policy we have no option but to pay more for  
17 all the costs associated with the installation of the  
18 facilities. We can hire competent electrical companies to  
19 perform the material installation at less than what I  
20 think APS will charge us.

21 We must wait for APS to put us on their schedule,  
22 which they assure us will be timely. I have an experience  
23 where we received a notice from APS on a need to raise  
24 some transformers in the first phase of our subdivision.  
25 We, over the course of a couple three months, had

1     contacted APS -- personnel at APS to come out and tell us  
2     what they wanted us to do and how to resolve the issue  
3     that they informed us about. And I wrote in my complaint  
4     to the Commission that they had failed to respond to us.  
5     They had sent a man out, he went back. When my  
6     superintendent called again, they gave him the word that  
7     somebody else would have to come out and look at the  
8     project and tell us what we needed to do.

9             It wasn't until after my complaint was filed with  
10     the Commission that I received a call -- well, actually I  
11     called APS and said, when can you come out and do this; we  
12     have been waiting for two or three months. We had two  
13     representatives show up within 20 minutes. They asserted  
14     that they had never received any contact from us. But my  
15     superintendent assures me that he talked to one man who  
16     came out on the job and talked to another gal two or three  
17     times without any response. We did finally resolve that  
18     issue last week.

19             We provide the entire delivery system to APS free  
20     of all costs so that they can make more profit on the  
21     power they provide to the company. And we have no  
22     alternative means to provide alternative power to our  
23     customers. You can be assured that the cost of materials  
24     will also rise under this Schedule 3.

25             Second, Schedule 3 continues, "All payments

1 received for new or upgraded service under provisions of  
2 this schedule shall be nonrefundable."

3 It is, in my view, outrageous to believe that it  
4 is fair or right to allow APS to receive free of cost all  
5 of their facilities. We all have been struck by the  
6 rising prices of gas, gasoline. Oil companies determine  
7 their profit based upon the amount they can collect for  
8 selling their product. They don't require us to put -- or  
9 pay for the costs of service stations so they can provide  
10 us with this source of need for energy.

11 But APS, in this Schedule 3 policy, is expecting  
12 the public to pay for their facilities, and it will. It  
13 is a windfall for APS for us to have to pay for the  
14 facilities to deliver their product to the public.

15 I know that the Commission has expressed an  
16 opinion that they want growth to pay for growth. The  
17 growth we are paying for under Schedule 3 is the growth of  
18 APS.

19 I have a little stock in APS. The stock market  
20 has been horrendous over the last 18 months, but APS has  
21 paid consistently the dividends, the same dividends for  
22 over a year. That must mean that they are profitable. I  
23 think we can look around the room and see how many  
24 representatives are here for APS, paid by APS, either  
25 employees or attorneys. I'm here alone. I don't have any



1 other representation. I'm no attorney, but I can tell you  
2 that APS is making a profit consistently and that this  
3 would be a windfall for APS to have their facilities paid  
4 for on the backs of development.

5 Excuse me. I have to find where I was.

6 Developers under the previous line extension  
7 policy could reasonably afford the risk and cost of money  
8 to prepay the line extension costs in their development  
9 expecting reimbursement for this investment when we bring  
10 new APS customers to hook up to their power. That risk is  
11 assumed by the developer until such power is connected.

12 This policy removed the risk of new line  
13 extension from APS because they did not reimburse the  
14 developer until and unless the houses were sold and new  
15 customers were hooked up. I'm not speaking the 1,000  
16 extension line policy in this; I'm speaking of the cost to  
17 put in new facilities in a new development and the hookup  
18 fees that are now required.

19 Even if the developer lost his property through  
20 poor judgment or circumstances beyond his control, APS  
21 owns the facilities and the easements to maintain them and  
22 without the obligation to repay the developer. If APS now  
23 must have their facilities paid for on the backs of those  
24 who buy and purchase new homes and the developers who put  
25 in these developments, perhaps it's time to have APS pay

1 for the easements that they are given free on the property  
2 that developers have purchased. That may offset costs of  
3 putting in the facilities for APS. I think that APS would  
4 probably object to that, just as I'm objecting to paying  
5 for those facilities.

6 Third, it has been stated that the intent of the  
7 ACC and APS is that growth pays for growth; however,  
8 Schedule 3, in my opinion, kills growth because it  
9 unfairly burdens the developer with the additional costs  
10 and risks in a marginal or depressed market such as we are  
11 experiencing in Arizona. Where there is no market in  
12 rural Arizona for much housing that can bear this burden,  
13 it is especially impacted in the rural areas.

14 There is no market for new housing and few home  
15 buyers can qualify for a mortgage with these additional  
16 costs. Rural land costs will of necessity plummet because  
17 no one will want to pay the added cost and chance that APS  
18 will find adequate capacity, voltage, and company  
19 facilities to bring power to their property.

20 I just drove through miles of rural Arizona and  
21 saw power lines all over the place, but I can guarantee  
22 you that those power lines will all be improved, new  
23 transformers will be put in, and connection fees will be  
24 applied so that somebody in 10 acres 20 miles outside of  
25 Douglas can have power. And then everybody that hooks up

1 to that new system will also pay their fair share because  
2 growth pays for growth.

3 We own nearly 200 acres of rural land, which we  
4 feel have been devalued by this egregious policy because  
5 the direct costs of our land has gone up and no one will  
6 pay for it.

7 We bought the land five years ago. The policy at  
8 that time for power was the old policy where we could  
9 realistically expect that whatever investment we put into  
10 the land we could get back a portion of that based upon  
11 the facilities that were installed from APS. That  
12 disappeared with this policy.

13 And now I have got one phase with 37 homes, and I  
14 wish that I would have known about this policy six months  
15 ago so that I didn't record the second and third phases in  
16 this property because now my taxes have gone up on  
17 undeveloped land because we subdivided it. And I can't  
18 recoup those losses that we will have in the tax revenue  
19 that comes from those lots being subdivided.

20 We have terminated operations and had to lay off  
21 construction crews because the market cannot afford the  
22 added cost of housing created by this policy. In my  
23 second phase -- well, I will get to that in the moment.

24 We brought the power facilities -- I'm sorry. We  
25 have invested nearly \$5 millions in off-site and on-site

1 improvements, including utilities. We brought the power  
2 facilities at our expense to our site expecting  
3 reimbursement under the old policy. Some lots have not  
4 been sold to date -- I think four -- and APS has not had  
5 to pay anything for those facilities in these lots.

6 Phase II of our development has 43 lots. APS  
7 quoted me \$98,000 for phase II. We have \$2300 per lot in  
8 phase II. We have 35 lots, which were scheduled to have  
9 smaller more affordable houses to meet the needs of the  
10 local market. We went from 1200 square foot as the  
11 smallest home down to 650 square feet, and this policy  
12 terminates our ability to sell that house. We cannot sell  
13 to the local market.

14 So I have personally been impacted by this  
15 policy. I read the testimony of Mr. Ewen, I think is his  
16 name, where he said that all the testimony that I have  
17 offered has been -- what was the term he used? Excuse me.

18 I'm sorry for the delay. I'm a little nervous.  
19 I have not been before so many attorneys.

20 CALJ FARMER: That's fine. Just take as much  
21 time as you need to find the reference that you are  
22 looking for.

23 THE WITNESS: Well, I can't find his testimony.

24 CALJ FARMER: Let's just go off the record for a  
25 moment here, and let's take about a five-minute or

1 ten-minute break and maybe the witness can find it.

2 THE WITNESS: Sorry about it.

3 CALJ FARMER: Let's take a break here and come  
4 back at 25 after.

5 (Whereupon, a recess was taken from 11:16 a.m.  
6 until 11:26 a.m.)

7 CALJ FARMER: Let's go ahead and get back on the  
8 record, and we have the witness who may continue with his  
9 testimony.

10 THE WITNESS: Thank you. I apologize for  
11 delaying everyone. I had a senior moment, I think. I  
12 recently returned from Chile, having spent three years  
13 there, and there are times when the two languages don't  
14 work together. So I apologize, but I did find the  
15 testimony that I want to dispute to some degree, because  
16 it addresses me in particular.

17 Mr. Ewen, I think is how it's pronounced, from  
18 APS, who apparently is very well qualified in what he  
19 does, made the assertion that I offered nothing more than  
20 an anecdotal testimony in terms of the impact that this  
21 Schedule 3 has on the economy, on the development, on us  
22 in particular.

23 And the truth of the matter is, he makes some  
24 assertions that are, in my view, just wrong. First of  
25 all, he says, "I have seen no reports, analysis or other

1 information demonstrating that the company's current line  
2 extension policy is in any material way affecting growth  
3 in Arizona." This is in his summary line item 2, his  
4 answer on page 2 of his testimony.

5 If he read my complaint, which I'm confident he  
6 did or otherwise why would he address me in his statement,  
7 he knows at least that we have been impacted. I didn't  
8 need to hire a company to analyze why we were impacted.  
9 We made a business decision based upon the reality of the  
10 market and what this cost did to us per house. I don't  
11 know how you get more direct than that. I don't think  
12 there is anything anecdotal about it.

13 He also continues, "There is absolutely no  
14 evidence to suggest that the change in the line extension  
15 policy has materially affected growth in APS service  
16 territory."

17 It may be true that there are -- if you count the  
18 numbers, there may be growth because of people who are  
19 willing to pay the additional cost for their facilities to  
20 provide their power and that APS is not seeing a drop in  
21 their growth. But I can tell you that at least in our  
22 case, there has been a significant drop in growth. And  
23 I'm confident that there are many others that could be  
24 brought before you and tell you what the impact is.

25 Truth is, we are just barely getting to the

1 impacts. So while there may not have been any impacts  
2 since 2007, in large measure I think that is due because  
3 people haven't been aware of this policy change, and why  
4 would they until they are ready to develop or bring power  
5 to their property.

6 Right now it impacts me because we were -- we  
7 have recorded our second and third phases and we are ready  
8 to move forward with the smaller homes to meet the demands  
9 that exist in Douglas, but in a market that has been beat  
10 up and many people can't qualify for a home over \$80,000,  
11 but they can qualify for that.

12 So I think his assumption is disingenuous in  
13 terms of what the impacts have been. We don't know the  
14 total impact yet, but the total impact, to me, is that we  
15 stopped operations in Douglas.

16 We are cleaning up the few remaining things we  
17 have there. I have four lots that I can build houses on  
18 that already have the facilities in place, so I can  
19 compete with those four lots. And I will likely build  
20 houses on those, and then we will be done in Douglas until  
21 something happens to change -- either the economy explodes  
22 and you add 500 more border patrol agents who have to have  
23 housing in Douglas and don't want to travel to Sierra  
24 Vista to get housing or whatever.

25 Maybe when they build the border crossing there

1 the demand will be such that we can pass this cost of  
2 APS's facilities onto them and we will come back to  
3 Douglas, but right now we are winding it up. And I have  
4 got five employees who no longer work for us because of  
5 this policy.

6 He also asserts, which I take issue with, that  
7 the reason that the building industry is suffering in  
8 Arizona is because we overbuilt. The demand is there. We  
9 have a great market if the economy was such that people  
10 could get loans. And I suppose we could try and determine  
11 whether it was the stock market or bankers or developers  
12 or policies like APS who try to place blame. There are a  
13 lot more qualified people to talk about that, but I can  
14 guarantee you that the demand for housing exists in  
15 Arizona.

16 There may be a glut because of so many  
17 foreclosures that have occurred and that continue to occur  
18 because of the poor economic conditions. But that is just  
19 additional fire for the notion that this has impacted  
20 adversely growth and development in Arizona. It  
21 exacerbates the problem; it doesn't help it.

22 In Douglas we have added 500 border patrol  
23 agencies. Most of them travel 55 minutes from Sierra  
24 Vista to Douglas to work because there hasn't been  
25 adequate housing. We have sold most of our homes to



1 border patrol agents, and our intent from the beginning  
2 was to provide housing for them. And we have been in a  
3 niche market because nobody else has done it. In the last  
4 two years Sonora Development has accounted for 95 percent  
5 of the building permits in Douglas city. They won't have  
6 that this year. Should have had that, but they won't  
7 because we can't compete.

8 One fellow who lives in my neighborhood there who  
9 bought a home from us improved it, put in a new block wall  
10 and fixed his house up and made it how he wanted it with  
11 his family; he has been transferred to New York from  
12 Douglas. He is forced to allow the bank to take the house  
13 back because there is nobody to buy his house, and he is  
14 selling it for what he paid for it.

15 That is an indication of the market difficulties  
16 that we have in Douglas, and this APS Schedule 3 policy  
17 exacerbates that.

18 I will continue on with my prepared testimony.

19 The buyers -- we have 35 lots, which were  
20 scheduled to have smaller, affordable housing to meet the  
21 needs of the local market. Again, the buyers would be new  
22 customers brought to APS without risk or costs. This is  
23 growth paying for growth. We even give APS, free of  
24 charge, a utility easement to maintain these facilities on  
25 property we have paid for and must pledge to the utility

1 services. However, these houses are not out of the reach  
2 for these potential new home buyers; they simply do not  
3 qualify for the loans.

4 We had planned several more phases as the market  
5 improved, but we have been forced to shut down because of  
6 Schedule 3 policy changes. The consumer advocate of APS  
7 informed me that APS has millions and millions of dollars  
8 in the ground in facilities that they can't hook up power  
9 to, and I understand that. But I can guarantee you a  
10 large portion of those dollars came from developers who  
11 were unable to complete their developments, and APS still  
12 has their facilities. And I'm confident they haven't  
13 reimbursed those developers who have gone belly-up.

14 This APS consumer advocate characterized me in  
15 response to my complaint to the Corporation Commission as  
16 someone who wanted to build a few homes in Douglas but  
17 decided against it because of the current Schedule 3  
18 policy.

19 When we had put nearly \$5 million in Douglas over  
20 the last five years, we have 200 acres, and if you figure  
21 10 acres per development per phase, that is 20 phases. If  
22 it's \$98,000 per phase to add facilities for APS to  
23 provide the power, that is an additional \$2 million of  
24 costs that we will have to pay or pass on to the buyer,  
25 which we simply can't do because the buyers can't qualify.

1           Fourth, regarding the loss of the free 1,000-foot  
2     line extension, I have man who asked me to build him a  
3     home on an in-fill lot measuring 25 by 110 feet, which he  
4     bought for about \$3,000. And checking with an APS  
5     engineer about the cost to provide power to this existing  
6     and approved lot within the city of Douglas, I was told if  
7     the transformer was outdated they would require a new one  
8     at a cost of \$6,000.

9           Well, guess what. Who determines that?  
10    Certainly not the lot owner. APS at their discretion will  
11    determine whether we need a new transformer or not.

12           The transformer, I was informed by in engineer,  
13    feeds three homes. There is power right to the property.  
14    But we have to put a transformer in off-site in order to  
15    provide power to this one home and improve the conditions  
16    to the other two. The other two don't want to pay any  
17    costs. They have been there for 20 years, so why should  
18    they bear the burden of that? But APS has been collecting  
19    power off of that existing transformer for who knows how  
20    many years. But now on the back of this lot owner they  
21    expect \$6,000 to put in a new transformer. It's  
22    outrageous.

23           They also have a connection fee of \$1300. He  
24    wanted to sell me the lot for \$4500 to build a house on,  
25    one of the 650-square-foot homes that we felt like we

1     could sell in that market. We more than doubled the price  
2     of the lot.

3             In Douglas there are at least 100 vacant lots  
4     such as this one. The City spends thousands of dollars a  
5     year in maintenance costs to clean the weeds off of these  
6     lots. We approached the City and said we would be happy  
7     to work with them to try to build homes, small homes that  
8     people could afford, in Douglas. With this policy that  
9     approach is no longer valid because they end up paying two  
10    and a half times the cost of the land.

11            Nobody wants these lots. People have abandoned  
12    them. They are off the tax rolls. The City has acquired  
13    many of them through default and because of the costs that  
14    they have incurred to maintain them. We can't do anything  
15    with it.

16            You want to talk about blight, drive through  
17    Douglas and see these lots, and this policy specifically  
18    adversely affects and impacts these lots as evidenced by  
19    my experience -- personal experience with this.

20            He abandoned the idea of building a house on this  
21    property, and in my view the property has been devalued  
22    because of it. He can't sell it.

23            The market simply cannot pay an additional \$7300  
24    per lot. The City has at least 100 such lots.

25            The American dream of owning your own home

1 continues to get out of the reach because of accelerating  
2 costs of construction and egregious policies, such as the  
3 current Schedule 3. The Federal Government has been  
4 attempting many measures to stimulate growth in our  
5 economy. The majority of the economists agree that until  
6 housing is restored, our economy will not improve and yet  
7 this policy has been approved, which is the antithesis of  
8 such economic improvement.

9 The only valid and fair solution is to reverse  
10 the Schedule 3 policy decision and resort to what has been  
11 lost so that growth continues even in this difficult  
12 economic time. This reverse ought to be retroactive to  
13 the date of implementation, in my view. The additional  
14 cost of power upon reinstatement of the previous Schedule  
15 3 policy across the APS service area will be minimal in  
16 comparison to having an unregulated monopoly determine the  
17 costs of facilities, which the public is then obligated to  
18 bear, or to kill housing and new development because  
19 builders no longer can afford the risk and investment  
20 associated with improving land or having growth pay for  
21 growth of APS rather than growth of our economy.

22 And finally, the additional cost of power upon  
23 the public in reinstating the old policy is minimal in  
24 comparison to the urban squalor that comes from lots that  
25 are no longer worth improving because of the cost of the

1 electric facilities to service them.

2 The public will actually bear the additional  
3 costs associated with this policy and higher taxes for  
4 cities to maintain these blighted properties.

5 I respectfully urge the Commission to do the  
6 right thing and reverse this policy. My experience in  
7 Douglas, Arizona is not anecdotal; it's fact.

8 APS is powerful. I was told that the director of  
9 the League of Cities stated when asked to join in the  
10 opposition, "APS is too big. We can't oppose them."

11 Our only protection is the elected commissioners,  
12 and this policy will harm development and be a windfall  
13 for APS because they get their facilities provided at no  
14 cost.

15 Thank you. That is my testimony.

16 CALJ FARMER: Okay.

17 MS. WYLLIE-PECORA: Thank you.

18 CALJ FARMER: Ms. Pecora, do you have his  
19 testimony marked as an exhibit?

20 MS. WYLLIE-PECORA: I have not. I will mark it.  
21 I think it's P-10.

22 CALJ FARMER: Does anyone have an objection to  
23 P-10?

24 MR. MUMAW: No objection, Your Honor.

25 CALJ FARMER: It was prefiled, so it is admitted.

1 (Exhibit P-10 was admitted into evidence.)

2 CALJ FARMER: Did you have any questions of  
3 Mr. Faulkner?

4 MS. WYLLIE-PECORA: I have a couple follow-ups.

5 Q. (BY MS. WYLLIE-PECORA) Thank you. That was very  
6 interesting.

7 Now, I'm just a person. I understand a little  
8 bit about the 1,000 free -- nothing is free -- electric  
9 policy that existed prior to July of 2007, but could you  
10 just briefly explain what the builders did prior to July  
11 of 2007 versus what they do now -- what they have to do  
12 now?

13 A. I can tell you from my conversations with my  
14 partner who was running the show down here while I was in  
15 Chile for three years. We prepaid for the facilities. We  
16 had APS give us a price -- a cost of what the facilities  
17 would cost. We did the excavation, and I think laid most  
18 of the conduit. And then we prepaid APS to put in the  
19 electrical services and transformers and other facilities  
20 that they require.

21 And then we had an agreement that upon connection  
22 of these facilities we would be reimbursed a certain  
23 portion of those funds that were paid, to reimburse the  
24 cost that we put up front.

25 Q. Okay. That is the old way?

1 A. That is the old way.

2 Q. And what is the new way?

3 A. Well, the new way is, if we were doing the  
4 phase I again under the current policy, we would pay for  
5 whatever the length of the extension was -- and I'm sorry.  
6 I don't know what the extension distance was on the first  
7 phase. My partner could tell you that, but I don't know.

8 But assuming it was the 1,000, APS would require  
9 that we put it in. They would determine what it costs to  
10 go in, and they would do the work on putting it in.

11 And then from that point, assuming that they had  
12 capacity and voltage and whatever else they wanted to  
13 assure that they had, then we would pay for the  
14 transformers and other facilities that they require for  
15 each lot.

16 Q. And that is the end? I mean, no reimbursement?

17 A. Without reimbursement.

18 Q. Okay. You mentioned building the lines, being  
19 able to construct the facilities, I guess is the word.

20 A. Uh-huh.

21 Q. On -- because you're license or bonded or  
22 whatever it requires --

23 A. We could hire licensed electrical contractors.

24 Q. What you are saying is then you could hire  
25 subcontractors out to do it, according to APS's



1 specifications, providing that that was given to you?

2 A. Yes.

3 Q. And you would be able to save a lot of money that  
4 way?

5 A. Presumably we would. We don't know. I mean, we  
6 are at the mercy of APS and what they determine those  
7 costs to be. I don't know if they will say, well, on this  
8 new project we need to have four new trucks in order to  
9 accommodate the requirement to put in the facilities on  
10 this job site.

11 And as broad and as simple a statement as this  
12 policy 3 is, it flat out opens the door for that kind of  
13 mentality. There is no -- in the original iteration of  
14 this policy, there is no oversight. There is no check and  
15 balance. We are at the mercy of APS and their generosity  
16 to provide these facilities at whatever they determine  
17 those costs to be. I'm sorry, but I don't believe it's in  
18 their self-interest to help us get our development in.

19 Q. Okay. My last question for right now is, you  
20 mentioned the easements.

21 You have to provide easements?

22 A. Yes.

23 Q. And once you do that and they put in their lines,  
24 then do those easements become the property of APS?

25 A. No. They have an easement on the property. It

1 is part of each individual lot that is subdivided in a  
2 subdivision. So there is an easement, a 10-foot easement  
3 for utilities on every lot. The homeowner owns that  
4 property, but the easement provides that the utility can  
5 come in anytime they want to maintain and service their  
6 lines.

7 Q. So you still pay taxes on it?

8 A. Yes.

9 Q. But actually APS has control of it?

10 A. That's correct.

11 MS. WYLLIE-PECORA: Okay. That is it for now.

12 Thank you.

13 CALJ FARMER: Questions from the parties?

14 APS.

15 MR. MUMAW: Thank you, Your Honor.

16

17 CROSS-EXAMINATION

18

19 Q. (BY MR. MUMAW) Good morning, Mr. Faulkner.

20 A. Good morning.

21 Q. So I understand the 200 acres that you referenced  
22 that you purchased, that was in 2004; correct?

23 A. Yes, I believe so.

24 Q. Is that actually within the city of Douglas?

25 A. Yes.

1 Q. And in the subdivision to which you referred to  
2 several times, I believe it's Coronado Hills?

3 A. Correct.

4 Q. And you did phase I of that subdivision under the  
5 prior provisions of Schedule 3; is that correct?

6 A. Correct.

7 Q. And you understand you were required to advance a  
8 portion of the total cost of that extension?

9 A. Yes.

10 Q. And is it true that subsequently you have been  
11 refunded all of the amounts advanced by phase I?

12 A. I don't believe we have been refunded all the  
13 amounts. We have four lots that have yet to be hooked up  
14 to power, and I think those have yet to be reimbursed.

15 Q. Could I ask you to check on that because my  
16 information is that you have been refunded everything.

17 A. Well, it may be, and your information may be  
18 accurate. I don't know.

19 Again, I apologize. I have been here since  
20 April, and so I have taken over the operation here, but my  
21 partner is the one that dealt with APS prior to this time.

22 Q. Did you have any problems with either the quality  
23 or cost of the work done by the company in phase I of  
24 Coronado Hills?

25 A. Not to my knowledge.

1 Q. You indicated, I believe in your testimony, both  
2 written and oral, that you invested, I believe, \$5 million  
3 in the development costs for phase I; is that correct?

4 A. All of the costs that we've expended, including  
5 the land costs and development costs.

6 Q. And would that include the land costs --

7 A. Yes.

8 Q. -- just for phase I or also for phase II and III?

9 A. No. No. 200 acres.

10 Q. Okay. What was your estimate of the development  
11 costs for phase II?

12 A. I can't tell you that. I don't have that  
13 information in front of me.

14 Q. Well, do you recall whether it was in the million  
15 dollars?

16 A. It exceeded \$1 million. I'm not sure exactly  
17 what it was. We ran sewer for the City about a mile and a  
18 half at our expense. We did all the work on that.

19 Q. Do you recall how much that sewer expense would  
20 have been?

21 A. I think it's somewhere around \$700,000.

22 Q. And in contrast to the less than \$100,000 quoted  
23 to you for electric service?

24 A. I'm not sure of what difference that makes, but,  
25 yeah.

1 Q. Okay. And it's your testimony it was the \$98,900  
2 quoted by APS that broke the project and not the \$700,000  
3 charged by the City of Douglas?

4 A. Our plan was to build 35 lot houses on the second  
5 phase, and APS's policy made us determine that it was not  
6 feasible to do it. That is correct.

7 Now, you may not understand that, but that is  
8 correct. We can't sell the homes. I put in two pads for  
9 houses before we found out the APS policy. I ordered the  
10 trusses for those two homes. We had a crew doing the  
11 concrete work and the plumbing on-site, and we dug the  
12 streets and we were going forward with this development.  
13 We had the money in place to move forward, and this policy  
14 of APS's put us over the edge.

15 Q. I believe you testified that there is currently  
16 no market for new homes in Douglas; is that correct?

17 A. No. What I testified is there is no market for  
18 new homes they can't afford, and the new market -- the  
19 market that is there can afford a home under 80- or  
20 \$85,000, but they can't afford more than that.

21 APS's policy is only part of the issue. There  
22 are impact fees with the City of Douglas. There are  
23 construction permit costs and so forth. We have a water  
24 line issue that we are -- I mean, a surface drainage issue  
25 that we need to deal with. And so there is no question

1     that our costs have been going up, but we have been  
2     holding the line on trying to provide a product for the  
3     market that currently exist in Douglas and to capitalize  
4     on the 500 border patrol members, most of which live in  
5     Sierra Vista because they can't find housing in Douglas.

6           Q.    What is the impact fee from the City of Douglas?

7           A.    \$8500.

8           Q.    Per lot?

9           A.    Yes.  It doesn't matter what size house.

10          Q.    Let me ask you this, Mr. Faulkner.

11                First of all, is Sonora Development at present an  
12   APS-approved contractor?

13          A.    I can't answer that.  You can answer that better  
14   than I can.

15          Q.    Okay.

16          A.    I don't think we have ever applied to APS to  
17   qualify.

18          Q.    Discussing your testimony and the issue that you  
19   had with the company concerning transformers, do you  
20   recall that?

21          A.    Yes, raising three transformers that were  
22   subterranean.

23          Q.    In fact, didn't APS contact Sonora Development on  
24   or about May 6th of this year indicating that the  
25   transformers had essentially been inundated with dirt and

1 gravel?

2 A. Yes. We received a letter from APS indicating  
3 that there were problems with those three -- there was a  
4 problem with those three transformers and that we needed  
5 to meet to have a resolution decided on how to correct  
6 that problem.

7 Subsequent to that letter I, through my  
8 superintendent, he contacted APS to come out and tell us  
9 what they suggested to remedy the circumstance. One  
10 fellow showed up, went through it and told him what he  
11 thought would need to happen but that he had to talk to  
12 somebody in the office, and nothing happened for 30 days.

13 I asked my superintendent what was happening with  
14 that letter from APS, and he said, "Well, it's in their  
15 hands; they have been out and looked at it, but I will  
16 call them again."

17 They did. Apparently somebody else came out and  
18 said that we will have to resolve that in the office. We  
19 will let you know what the resolution is.

20 Since May 6th until now we didn't have a  
21 resolution. About three weeks ago, I think -- my timing  
22 may be off a week or so -- but three weeks ago I had  
23 gotten tired of waiting. I said to my superintendent,  
24 "Where is APS?" And he said that they said they would get  
25 back to us.

1                   So I called APS. I got the gal who -- I'm not  
2                   sure what her position is, but apparently she is the one  
3                   that determines schedules and so forth. I asked her when  
4                   they were going to come out and tell us what we needed to  
5                   do to raise those transformers. She said, "We will be  
6                   happy to come out anytime." She was very pleasant.

7                   And I said, "Well, I'm here today, tomorrow or  
8                   the next day. You tell me when is best."

9                   She said, "I can come out right now."

10                  I said, "I will be here."

11                  So within 20 minutes she and a fellow, another  
12                  man, showed up, and we talked about the transformers.  
13                  They were very pleasant, told us what we needed to do and  
14                  suggested how we could resolve the problem. I assured  
15                  them that we would have that done within two days and that  
16                  they could come anytime to do whatever work they needed to  
17                  do to elevate or to level those transformers.

18                  At the end of the time period when they were  
19                  going to come back and do it I got a call that said they  
20                  were on an emergency call in Bisbee and could not come  
21                  until a week later.

22                  A week later they did come and leveled the  
23                  transformers. And then I subsequently got a call from the  
24                  gentleman that -- I think his name is Terry -- that said  
25                  that we needed to do a little bit more excavation around



1 that so there was a berm or something else with gravel so  
2 it wouldn't impact the transformer level. And we have  
3 subsequently done that, applied the suggestions of APS.

4 Their assertion to me when they came out was that  
5 they had never heard from anyone from Sonora Development  
6 on these transformers. My superintendent has a different  
7 view on that. I don't know what is the truth, other than  
8 what I have heard from both sides. But I do know that  
9 nothing happened until I called, and it's interesting that  
10 this happened so dramatically after I made my complaint to  
11 the Corporation Commission.

12 Q. Mr. Faulkner, I don't want to beat this into the  
13 ground, but in fact the May 6th letter to which I referred  
14 doesn't say anything about the meeting and conferring. It  
15 doesn't say anything about raising the transformers. It  
16 simply asks you to remove your dirt and gravel from around  
17 those transformers.

18 Isn't that true?

19 A. I don't know. My partner is the one that dealt  
20 with the letter. I just understood that we had a problem  
21 and that the transformer berms needed to be leveled in  
22 addition to the fact that they had excavation on top of  
23 them.

24 MR. MUMAW: Okay. Thank you. I have nothing  
25 further, Mr. Faulkner. Thank you very much.

1 CALJ FARMER: Any other parties have questions  
2 for the witness?

3 MR. HASKOVEC: We do, Your Honor.

4 CALJ FARMER: Okay. IBEW.

5

6 CROSS-EXAMINATION

7

8 Q. (BY MR. HASKOVEC) Good afternoon, Mr. Faulkner.

9 A. Good afternoon. It would still be morning if I  
10 hadn't delayed you.

11 Q. You mentioned in your written testimony that the  
12 Sonora Development has basically two parts; it consists of  
13 two parts. One is a land developer side and the other is  
14 a general contractor side; right?

15 A. Yes.

16 Q. When it comes to electrical work, do you  
17 subcontract all of it out or do you do some of that  
18 yourselves?

19 A. We do some -- we do all of the homes ourselves.

20 Q. The electric work?

21 A. Uh-huh. Yes.

22 Q. About what percentage of your time would you say  
23 you spend -- the crews spend doing electrical work?

24 A. Per house?

25 Q. However you would like characterize it.

1           A.   Well, I'm not sure I understand what your  
2           question is.

3                   Are you saying the electrical wiring of a home?  
4           Are you saying off-site and on-site trenching and laying  
5           pipe or what? I mean, what do you want me to answer?

6           Q.   Specifically just any electrical work. What  
7           percentage would you say that is of the whole?

8           A.   Of the whole construction process?

9           Q.   Right, that you spend your time on.

10          A.   I would have to take some time to try to  
11          determine that. I don't know. It would be a guess in the  
12          dark.

13          Q.   Okay. Is it safe to say you work on a number of  
14          aspects of construction and electrical is one among many;  
15          is that right?

16          A.   Sure. Sure.

17          Q.   Okay. In your written testimony you recite or  
18          you quote the provisions from Section 3 which reads, "All  
19          extensions shall be made in accordance with good  
20          construction practices as determined by APS and are  
21          subject to the availability of adequate capacity, voltage,  
22          and company facilities at the beginning point of an  
23          extension as to be determined by the company."

24                   Do you remember quoting that?

25          A.   Yes. Yes.

1           Q.   Mr. Faulkner, your preferred policy here is if  
2   you had your preferences, you would prefer to see a  
3   Schedule 3 that allows an option for third-party  
4   contractors to come and bid and compete with APS rather  
5   than just the current practice, which is to allow it to be  
6   completed in-house or by a certain corps-approved  
7   contractors; is that right?

8           A.   If I understand your question correctly, I'm not  
9   stating that.

10               What I'm saying is that if there is no check and  
11   balance, if the company is allowed to determine the costs  
12   associated with putting in their facilities and I have to  
13   pay all of those costs without the hope of reimbursement,  
14   I would like to have the opportunity to bid that with  
15   private contractors in order to save costs on my  
16   development.

17               That opportunity is not afforded me in  
18   Schedule 3. I am at the mercy of the good graces of APS  
19   to determine what the cost is, what the need is, what the  
20   requirement is, and we are obligated to prepay that in  
21   order to get power to our clientele.

22           Q.   Okay. Would it fair to say that you would  
23   consider a third-party contractor option to be an  
24   improvement on the current Schedule 3 policy?

25           A.   Yeah. If we had the option to go to a third

1 party, yes.

2 Q. Okay.

3 A. It won't solve the problem entirely, but, yes.

4 Q. Okay. Now, even assuming that such a third-party  
5 contractor option were adopted by the Commission, wouldn't  
6 line extensions still be subject to capacity and voltage  
7 limitations?

8 A. Presumably. I'm not an electrical contractor. I  
9 don't know what the requirements are for capacity and  
10 voltage and so forth.

11 However, in-fill lots, such as I have testified  
12 about, it seems to me are at the mercy of APS and their  
13 appetite to improve their system.

14 I don't mean that disparagingly. I'm just saying  
15 if you have an old transformer and now you have an  
16 opportunity to put in a new one and have it last 20 or  
17 30 years like the old one -- and I don't know what the  
18 life is of those transformers, but presuming that that is  
19 the case -- what would your choice be? It's put in a new  
20 facility and then there is no question. And I don't have  
21 to pay for it, and so that makes it even nicer. Wouldn't  
22 we all love to have our delivery system provided free of  
23 costs?

24 Q. You go on in your written testimony to say that  
25 since APS determines what schedule, materials and labor

1 for all lines extensions, the builder/customer is at the  
2 mercy of APS to install facilities in a timely manner at  
3 the most reasonable cost.

4 Do you remember that?

5 A. Yes.

6 Q. When it comes to -- you mentioned a timely  
7 manner.

8 Are you aware of the experience in any of the  
9 other states or jurisdictions as to whether the use of  
10 third-party contractors speeds up this process at all?

11 A. Yeah. If you have provisions in your contract  
12 that state if they don't meet certain schedules -- we have  
13 to deal with schedules all time as general contractors --  
14 they can be charged fees for their delay because their  
15 delay impacts our construction.

16 And so typically, in a subcontractor  
17 circumstance, you would employ those controls so that your  
18 schedule is not adversely impacted by somebody else's.

19 Q. Well, Mr. Faulkner, do you do any work in other  
20 jurisdictions, any construction work?

21 A. In Utah.

22 Q. In Utah. Anywhere else?

23 A. We have not done any other work anywhere else.

24 Q. Okay.

25 A. Utah and Arizona.

1           Q.   And do you believe that you could say today that  
2   you have, you know, some strong understanding or  
3   experience with a deal -- a great deal of other  
4   jurisdictions as to whether or not this speeds of the  
5   process?

6           A.   Yes.

7           Q.   You believe you can?

8           A.   Yes.

9           Q.   Just based on what you said a moment ago?

10          A.   Yes. I have been under the same hammer. I have  
11   had to agree to build things under a certain schedule.

12                I don't know of a road that is constructed in any  
13   state -- I can't speak for others, but I know in Utah and  
14   I presume in Arizona, you can't get a road building  
15   contract with a state department of transportation unless  
16   you have severe penalties for delaying that process,  
17   subject to natural disasters or other things beyond your  
18   control.

19                If I agree to build it in a certain time, I'm  
20   held to that standard and that schedule. And I think APS,  
21   if they had competition, will also be willing to hold to  
22   this schedule. They don't have any competition; they can  
23   determine whenever to put that stuff in.

24          Q.   You also refer to the most reasonable cost in  
25   that same sentence.

1 A. Yes.

2 Q. You were implying, I think is it fair to say,  
3 that they are not doing it at the most reasonable cost  
4 right now; right?

5 A. I presume that you can make that assumption. I  
6 don't know what is out there. I don't know whether I can  
7 get a subcontractor to come in and give me a better bid  
8 than APS at the current time, but I don't have that  
9 option.

10 I can find out pretty quick, and my experience  
11 with competition is, if there is competition, you can find  
12 someone to compete. But APS has no competition right now.  
13 They determine the cost, and so that is a question that is  
14 hypothetical and I can't address it.

15 Q. You also mentioned that, of course, APS wants  
16 their facilities to be state of the art.

17 Do you remember that?

18 A. Yes.

19 Q. Why do you view that as being a problem?

20 A. The problem is that there may be transformers out  
21 there that have another five years' worth of life to it  
22 that APS has been collecting fees to deliver power to the  
23 people that have hooked onto that particular transformer,  
24 as an example, for 15 years, 20 years. The transformer  
25 has been paid for 10 years ago, and they may have 5 more



1 years of life in that transformer. But APS at their whim  
2 or desire or determination can say, you know what, we are  
3 going to change this in five years, why not just go ahead  
4 and do that right now since we will have to hook up new  
5 customers.

6 I have no control over that. APS has no check  
7 and balance to determine whether it's in the best interest  
8 of the customer to wait those five years or to put in a  
9 new transformer rather than let's take the guesswork out  
10 and let's just put in a new transformer.

11 An example of that is the City of Douglas who  
12 purchased a building to put in a call center. They  
13 contact APS. APS gave them a bid of \$70,000 somewhat.  
14 And the City of Douglas was shocked, and they said, "What  
15 are you having to provide? We already have power to this  
16 facility, 220 power."

17 And they said, well, in the new schedule we  
18 determine that we have the right to put in new facilities,  
19 and what you are proposing will require more capacity,  
20 more voltages, I presume, or whatever, and so this  
21 transformer doesn't work.

22 They negotiated that price with APS down to  
23 \$53,000, but that call center received -- had a bill of  
24 \$53,000 that the City was not planning for.

25 Q. Would it be fair to say, though, that you have no

1 personal or direct knowledge of APS switching out  
2 transformers prematurely?

3 A. Yeah, that is fair to say. I have no idea. But  
4 also I have no way of telling whether or not it was  
5 necessary.

6 Q. And in your written testimony you go on to say,  
7 "There are no competitive material and labor bids. There  
8 is no competitive contractor who is allowed to do  
9 construction of the facilities."

10 Do you remember that?

11 A. Yes.

12 Q. Now, you work primarily in and near Douglas, is  
13 that correct, when it comes to the general contractor  
14 work?

15 A. Yes.

16 Q. Would it be fair to say that you wouldn't know  
17 whether there are contractors in other areas of APS  
18 service territory who have the capacity and capability to  
19 perform and who are basically ready, willing and able to  
20 perform this work if bids were permitted?

21 A. No, I don't know. I presume so. If there is a  
22 job opportunity, somebody will step up.

23 Q. And what are you basing that on?

24 A. Experience.

25 Q. And do you think the same would be true in remote

1 or sparsely-populated areas?

2 A. Sure.

3 Q. You think --

4 A. People need power in Douglas. Despite what APS  
5 may feel is needed -- needed for and necessary for them,  
6 people need power in Douglas. And the growth potential in  
7 Douglas is coming.

8 Q. The question is, though, whether you think there  
9 is going to be another contractor who is ready, willing  
10 and able to do that elsewhere?

11 A. I can't answer that.

12 Q. Okay. And finally, you in your written testimony  
13 mentioned that Sonora Development is licensed in Arizona  
14 to perform much of the labor required for the installation  
15 of APS facilities?

16 A. Yes.

17 Q. Do you believe that Sonora Development has the  
18 capacity and necessary and compatible equipment to do such  
19 work?

20 A. Yes.

21 Q. And you would otherwise be ready, willing and  
22 able to do it?

23 A. Yes. What we don't have in equipment we can  
24 lease for whatever period of time we need. We have  
25 operations that can do that.

1 Q. And you mentioned that you can perform much of  
2 the labor required.

3 What couldn't you perform?

4 A. We couldn't hook up the transformers or install  
5 them or those kinds of things. We would need a general  
6 contractor -- or an electrical contractor that is licensed  
7 to do that. We could put in -- we can dig the trenches.  
8 We can put in the conduit. We can provide service lines,  
9 those kind of things.

10 Q. Okay.

11 A. We can set a meter base.

12 Q. And you mentioned that this could be -- that  
13 Sonora Development could provide comparable equipment and  
14 materials at a significantly lower cost than APS?

15 A. Yes.

16 Q. Isn't it fair to say, though -- you said a moment  
17 ago -- you said you are not sure whether you could  
18 actually beat APS's price?

19 A. Yeah, I don't know. I don't know what APS is  
20 going to charge me for it until I see a competitive bid or  
21 another bid on the same material. How can I tell you  
22 whether it's competitive or not.

23 Q. All right. So this assertion -- is it fair to  
24 say that this assertion that you could do it at a  
25 significantly lower cost is just based on conjecture?

1           A.    No.  It's based on 40 years' experience in the  
2    construction business, and I can find materials and costs  
3    that are cheaper than others.  And to the extent that the  
4    contractor is able to do that, many times makes a  
5    difference whether he can compete in the market.  It's  
6    something we have always had to do, is compete.  It may be  
7    a foreign notion to APS, but it's something we have always  
8    had to do.

9           MR. HASKOVEC:  No further questions.

10          CALJ FARMER:  Mr. Robertson.

11

12                                   CROSS-EXAMINATION

13

14          Q.    (BY MR. ROBERTSON)  Thank you, Your Honor.

15                   Good afternoon, Mr. Faulkner.

16          A.    Good morning.

17          Q.    You during the course of your testimony alluded  
18    to APS's attorneys and the number of attorneys it has in  
19    the room, and I thought perhaps before I begin my  
20    examination of you, I would love to clarify.

21                   The only two attorneys participating in the  
22    hearing actually in the employ of APS are the two  
23    immediately to your right at the counsel table just below  
24    you.  The rest of us represent various signatory parties  
25    to the settlement agreement, which is before the

1 Commission. But we come from a multitude and diverse  
2 range of client interests, including my own client, who on  
3 occasion are at tension with APS in various proceedings.

4 A. I appreciate knowing that. On the other hand,  
5 there are many attorneys representing interests who have  
6 the same parallel interest as APS in seeing to it that  
7 this policy continues. And there may be attorneys for  
8 other power companies who are paying pretty close  
9 attention to this policy, and if they can get APS through  
10 it, they can then apply to the Commission to expand that  
11 policy to their utility company.

12 Q. Well, let me represent to you before I begin my  
13 examination that my client does not come with that sort of  
14 interest background, but let me set the stage for you.

15 I will read you part of one of the provisions in  
16 the settlement agreement to begin setting the stage. It's  
17 paragraph 10.2, and it read as follows -- I'm sorry. That  
18 is paragraph 10.3 -- "The agreement proposes to maintain  
19 the Commission's current policy regarding customer  
20 payments for line extensions."

21 Now, Ms. Pecora when she intervened in the  
22 proceeding raised what has become known as the Schedule 3  
23 issue, and in essence she is asking the Commission to  
24 reconsider the current policy that the Commission settled  
25 upon in July of 2007.

1 Do you understand that?

2 A. Yes.

3 Q. Okay. That issue is one among a number of issues  
4 that are before the Commission in this proceeding within  
5 the context of the settlement agreement, and the central  
6 ultimate question for the Commission is whether or not it  
7 should approve the settlement agreement as currently  
8 proposed or with some modifications.

9 Do you understand that?

10 A. Yes.

11 Q. Let's assume for purposes of my question that in  
12 the totality of the circumstances surrounding this  
13 proceeding and the settlement agreement, for whatever  
14 reason or reasons the Commission decides not to change the  
15 current policy which it adopted in July of 2007 as to APS,  
16 for the time being, at least, and within the context of  
17 this proceeding.

18 Will you make that assumption with me?

19 A. Okay.

20 Q. Let's assume the Commission further decides that  
21 in reviewing that policy down the road it would be  
22 appropriate to conduct one or more workshops and to  
23 solicit the input from all parties or persons who might  
24 have an interest in a possible change of the policy,  
25 either going back to what it was prior to July of 2007,

1 something different, or retaining it in place.

2 Would you and your company be willing to  
3 participate in those sort of workshops?

4 A. I guess I would need to know who is conducting  
5 the workshops, what impacts could come from that; in other  
6 words, if there was really a way to modify the schedule so  
7 that it helped to meet some of the impacts that it has had  
8 on my company, in particular, in what we feel is rural  
9 Arizona, where our company is currently building, then I  
10 would probably be favorable to participate in the workshop  
11 if we could see some effect in changing the policy.

12 Q. Now, you are aware that the policy change we are  
13 talking about was a policy change that the Commission had  
14 itself decided to make in July of 2007; is that correct?

15 A. Yes.

16 Q. Would it address your comfort level if you were  
17 to know the workshops I alluded to would be workshops  
18 conducted by the Commission Staff?

19 A. Well, that is certainly a better director of  
20 those -- the dialogue, if you understand what I'm saying.

21 Q. And would it further address your comfort level  
22 in the concern you expressed if you were aware that an  
23 outcome of the workshop or workshops would be a report  
24 prepared by the Commission Staff for consideration by the  
25 Commission that all participants in the workshop and other



1 interested parties could comment upon to the Commission?

2 A. Yes. Again, presuming that the workshop will  
3 have an impact in the ultimate decisions that the  
4 Commission would make regarding this policy. If, in fact,  
5 participation in the workshop could incorporate the views  
6 of those who are in opposition to this schedule, then I  
7 would certainly be willing to participate.

8 Q. Okay. Mr. Faulkner, that is all I have. Thank  
9 you very much. I wish you a safe trip back to Douglas.  
10 That is a long drive.

11 A. Thank you. I hope I stay awake.

12 CALJ. FARMER: Do any other parties have any  
13 questions for this witness?

14 Chairman Mayes.

15

16 EXAMINATION

17

18 Q. (BY CHMN. MAYES) I want to say thank you,  
19 Mr. Faulkner, for coming all the way back up. I think you  
20 were here for Phoenix public comment.

21 A. Yes.

22 Q. Just a couple questions.

23 Do you have any estimates of how many vacant  
24 homes there are in Douglas right now already constructed?  
25 I mean, is there --

1 A. I don't have an idea of that.

2 Q. Are there some, many?

3 A. I don't think there is a place in Arizona that  
4 doesn't have vacant homes.

5 Q. Yes, I would agree with that.

6 A. Are there homeless in Douglas, yeah. Are there  
7 homeless in Phoenix and Tucson, yeah, and people who can't  
8 afford homes in every one of these cities.

9 Q. And people, you would agree with me, that can't  
10 afford higher utility rates?

11 A. I think people can afford higher utility rates  
12 more than they can afford higher pricing of housing.

13 Q. Do you think there are more people impacted by  
14 higher utility rates in Arizona or more people impacted by  
15 this line extension policy?

16 A. To be honest with you, I believe that this  
17 policy, if it's granted to continue, will be a windfall  
18 for APS, and they will be back here requesting rate  
19 increases anyway.

20 Q. You don't think that the rate increases that they  
21 might be asking for in the future and today would be any  
22 smaller if we went back to the 1,000-foot extension?

23 A. That is the assumption that the Commission is  
24 making. But experience is that APS is profitable and they  
25 will continue to be profitable, and the ones that are

1 paying that are the ratepayers and now the developers in  
2 providing their facilities.

3 Q. Well, then I think you're making the assumption  
4 that I don't know what I'm doing.

5 A. Well, I think that I'm making an assumption that  
6 we hope you know what you are doing and that you will  
7 represent us who cannot be represented by a cavalry of  
8 attorneys.

9 Q. Well, I think you have been pretty well  
10 represented by Ms. Pecora, but let me ask you this: Do  
11 you have this document that was just handed to the  
12 Commissioners? It's APS Exhibit 16.

13 Could someone give that to him.

14 Mr. Faulkner, on the first page of this  
15 exhibit -- I asked in one of my letters for APS to tell us  
16 how many individual residential line extensions by county  
17 the company had done 2005 through 2008.

18 Do you see that table?

19 A. Yes. Uh-huh.

20 Q. Do you see -- you are in Cochise County?

21 A. Correct.

22 Q. Do you see that they have done 213 individual or  
23 residential line extensions in the county?

24 A. Correct.

25 Q. Do you think that there are probably thousands of

1 customers of APS in Cochise County, residential --  
2 existing residential customers?

3 A. Sure.

4 Q. So you would agree with me that there would be  
5 more people affected by a larger rate case associated with  
6 a 1,000-foot line extension policy than there are affected  
7 by the line extension policy itself?

8 A. Well, under this assertion, yeah.

9 Q. Okay. Do you think -- and I know these are hard  
10 questions, and this is what we are grappling with too --  
11 but do you think that --

12 APS has also done an estimate. I'm obviously  
13 going to ask our Staff to look at these numbers and the  
14 other parties to verify those. I mean, you are right; I'm  
15 as skeptical as you are whenever someone presents  
16 something to me.

17 But if you look at page 2 of this thing, it  
18 states basically that if we had instituted -- if we had  
19 eliminated the 1,000-free-foot policy back in 2005 and  
20 through the year 2007 and just treated it as CIAC and not  
21 this new revenue treatment -- that was the top box there  
22 you see in the middle, the second box here -- but if we  
23 had treated it as CIAC, APS is saying in response to my  
24 question that the average impact on residential rate would  
25 have been a decrease of \$2.34 per month.

1 Do you see that?

2 A. I see it.

3 Q. Okay. I --

4 A. Do I believe it?

5 Q. We will test it, and we will test it  
6 scientifically and we will do a forensic accounting test  
7 on it, sir.

8 A. Let me ask you a question, if I might.

9 Q. Well, I'm asking the questions, and you can --

10 A. You are wanting me to respond.

11 Q. I do.

12 A. I need a question answered to respond.

13 Q. Okay. Well, go ahead.

14 A. What impact has it had on rates since 2007 when  
15 this policy was instigated?

16 Q. Well, that is what we are here to determine  
17 today.

18 A. Has the impact on the rates dropped?

19 Q. I think the assertion is that the rate increase  
20 that they would have proposed today would have been  
21 significantly higher if it hadn't been in place.

22 A. But that is different than my question.

23 Have the rates dropped? They are asserting  
24 that --

25 Q. Sir, they haven't been in for a rate increase,

1 you know, since then, except for an interim rate increase,  
2 which is part of this one.

3 A. I understand. But they are asserting by this  
4 chart that had you instigated this program years ago, the  
5 rates would have dropped.

6 In two years have the rates dropped, no.

7 Q. No, because we didn't have the policy in place,  
8 sir. In the last two years we haven't had a rate increase  
9 request from APS since the last -- since we eliminated the  
10 policy.

11 But I'm looking at and I'm asking you to look at  
12 this, of what they are saying -- and we will test these  
13 numbers -- is that the rates for the average consumer  
14 would have been \$2.34 lower per month. And by my math  
15 that means that the average consumer would have paid, just  
16 under the CIAC treatment, not the revenue treatment that  
17 they are proposing for the next couple years, \$26 a year  
18 more that they paid because they were paying for your line  
19 extensions.

20 What I want to ask you is, is it fair to a woman,  
21 an elderly woman living in Sun City or Sunnyslope, which  
22 is the area I live in, who is living on a fixed income and  
23 Social Security, to ask her to pay \$26 more per year so  
24 that you can do your line extensions?

25 A. Well, I'm not sure that I can answer that, but I

1 can certainly assert that provisions could be allowed in  
2 any decision of the Commission to take into account those  
3 who cannot afford it. And that provision would be -- to  
4 me, seems like a simple way to correct that problem.

5 Q. So you think that the working class should be  
6 asked to pay \$26 more a year so you can do your line  
7 extensions?

8 A. If growth benefits the working class, then, yes,  
9 they ought to pay their fair share.

10 Q. And do you think there has been any evidence  
11 presented in this case that the kind of growth that you  
12 are engaged in benefits the working class?

13 A. Absolutely.

14 Q. Where is that evidence?

15 A. The evidence that we provided 36 homes for people  
16 who didn't have them in Douglas.

17 Q. How about the working class throughout Phoenix?

18 A. I can't address Phoenix because I don't work in  
19 that market.

20 Q. How about the working class in my hometown of  
21 Prescott? That is rural Arizona.

22 A. I don't have any idea, but I do know in Douglas.

23 Q. Do you think a working class person in the middle  
24 of Prescott is impacted positively by your line  
25 extensions?

1           A.    Let me ask you, having more people in Prescott --  
2           and you referred in one of your public meetings to the  
3           squalor that the developers bring --

4           Q.    Sprawl.

5           A.    Sprawl.

6           Q.    I didn't say squalor.

7           A.    Okay, sprawl, that the developers bring to a  
8           community continues, or whatever the reality is, that the  
9           development provides housing for new people. It also  
10          provides tax base for municipalities. It provides the  
11          opportunity to improve education. It brings services to  
12          rural areas that don't have them currently.

13          Q.    Do you think it also costs those counties certain  
14          amounts of money to improve roads, to do road pavements?

15          A.    Who pays the impact fees for those? \$8500 a lot  
16          in Douglas.

17          Q.    Do you think the --

18          A.    Do you think that would go towards taking care of  
19          roads and sewers?

20          Q.    No. I think in the case of a developer -- and I  
21          think we are talking about two different kinds of  
22          development here -- in the case of a single line extension  
23          person, no, they don't pay for the road; do they? The  
24          person --

25          A.    Actually it is a part of the cost of their house.



1 The line extension is a cost.

2 Q. They are not asking the County to do the road  
3 maintenance on that road that they have to build to get up  
4 to their house that is at the top of a mountain or out in  
5 the desert?

6 A. No. What you are proposing is to pay for a  
7 company's facilities to deliver their product to the  
8 consumer that they will collect money on for years and  
9 years and years, and that is simply unfair.

10 Q. Well, I would suggest, sir, that it's actually  
11 the opposite, that the ratepayers are the ones under  
12 ratemaking -- and I think this is a misunderstanding of  
13 ratemaking and rate base -- but the rate under the law,  
14 what goes into rate base, and these lines do, then has to  
15 be passed on to other ratepayers.

16 Do you understand that?

17 A. Yeah, I understand that.

18 Q. Okay.

19 A. But I understand that they benefit by growth.  
20 Everyone benefits by growth.

21 Now, there are some people who are opposed to  
22 growth.

23 Q. You think everyone benefits from growth?

24 A. I think most people benefit from growth because  
25 of the services that come as a result of growth. There

1 are a lot more facilities and opportunities for people,  
2 residents of Douglas, for example, because we brought  
3 growth. Wal-Mart put a store in Douglas, of all places,  
4 and the biggest population that uses Wal-Mart is from  
5 across the border.

6 Do you think that the community is benefited from  
7 that?

8 Q. Do you think that any kind of growth is good  
9 growth?

10 A. No.

11 Q. Okay. Thank you.

12 CALJ FARMER: Mr. Pecora, did you have any  
13 follow-up questions for your witness?

14 MS. WYLLIE-PECORA: Your Honor, Chairman Mayes,  
15 yes, I do.

16

17 REDIRECT EXAMINATION

18

19 Q. (BY MS. WYLLIE-PECORA) Let's say that the man  
20 that you were talking about that had a \$3,000 lot, an  
21 in-fill lot in Douglas.

22 A. Yes.

23 Q. And APS was going to charge him \$6,000, I  
24 believe, to replace it and another \$1300 for something,  
25 and he decided he was going to do it, do you know that if

1     lightening hit the old transformer a month before the man  
2     was scheduled to replace it, who would pay for it then?

3           A.     That is a good question. It would be determined  
4     by APS.

5           Q.     Okay. Does this new policy affect the way you  
6     purchase land now or in the future?

7           A.     Yeah, I can guarantee I'm not buying any more in  
8     Douglas.

9           Q.     Okay. You also mentioned sewer costs.  
10           That is a City service; correct?

11          A.     Yes.

12          Q.     Okay. So the cost that you paid for the sewer --  
13     I think you said \$700,000 -- was paid to the City, not to  
14     a for-profit organization that pays dividends?

15          A.     Actually we put the cost in the ground. In other  
16     words, we bought the materials, we dug the trench, we  
17     installed it because we were licensed to do that.

18           The City then inspected it, accepted the work  
19     that we did, and acquired that in terms of our  
20     development. And then we have an agreement with the City  
21     that as the people hook onto that system, we get  
22     reimbursed a portion of the cost of that.

23          Q.     Okay. So in the long run you paid for it and  
24     then taxes pay for and cities go on and on with their  
25     budget, but they don't pay any dividends like APS?

1 A. That's correct.

2 Q. Okay. You were asked if you would be interested  
3 in participating in a workshop, and you had some  
4 interesting feedback on that.

5 If the workshop happens after this rate case and  
6 they do a workshop and do it statewide, they involve  
7 everybody, everyone gets notified and they give lots and  
8 lots of input but nothing happens for two years, would you  
9 rather participate in something like that or would you  
10 rather see this rate case deal with this issue?

11 A. Well, the workshop is the hypothetical situation,  
12 so really the impact of that and the truth of that is  
13 obscure.

14 We can solve the problem, as far as I'm  
15 concerned, by reversing the decision to accept this policy  
16 and go back to the old line extension policy. That would  
17 have the most dramatic impact on us right now, and I  
18 frankly don't have any faith in what the workshop would  
19 accomplish.

20 Q. Okay. Well, we can go there later, but another  
21 question is that -- I was asked, who should pay? Growth  
22 pays for growth, and this is the feeling, I guess, when  
23 they changed this policy in 2007, that growth needs to pay  
24 for growth.

25 So if we want a -- do we want APS to pay for it?

1 Do we want the shareholders in APS to pay for it? Do we  
2 want the users of the electricity, the average person,  
3 like Chairman Mayes was talking about, the lady in  
4 Sun City or the lady in Sunnyslope, the middle people  
5 throughout? Do we want the rates to increase or could we  
6 get the shareholders in APS to have less dividend?

7 A. Well, the dividend that APS has been paying has  
8 been consistent for at least a year; it's the same  
9 dividend.

10 My assertion is that if you need facilities to  
11 deliver your product, that is a cost of doing business,  
12 and you better pay it yourself.

13 I don't expect anybody to deliver the services to  
14 me free, but on the other hand I'm not going to pay for a  
15 truck that the builder supply place needs to deliver  
16 trusses to me just so I can get their trusses, and they  
17 don't expect it. They pay for their own trucks.

18 Q. Jobs are definitely affected by you not building  
19 in Douglas?

20 A. They have been affected. We have lost five  
21 employees.

22 Q. Okay. In your opinion, with what appears to be  
23 at least in the rural areas a decrease in the job market,  
24 and the percentages I think we have heard in these  
25 hearings have gone up as far as the unemployed, would it

1 be more important to maybe increase the electric bill by  
2 pennies and have those jobs back?

3 A. Yeah, it makes sense to me.

4 MS. WYLLIE-PECORA: Okay. That's all I have.  
5 Thank you very, very much for coming from Douglas.

6 CALJ FARMER: Any further questions for this  
7 witness?

8 MR. MUMAW: None, Your Honor.

9 CALJ FARMER: Okay. Thank you, sir, for your  
10 testimony today.

11 Let's take our lunch break here.

12 And we need first -- Ms. Pecora, before you  
13 leave, you need to give a copy of this witness' testimony  
14 to the court reporter marked as P-10.

15 MS. WYLLIE-PECORA: Thank you.

16 CALJ FARMER: Let's take a lunch break and come  
17 back at 1:45.

18 (TIME NOTED: 12:39 p.m.)

19 (Kate E. Baumgarth, Certified Reporter, was  
20 excused from the proceedings.)

21 (A recess was taken.)

22

23

24

25

1 (The afternoon session resumed at 1:50 p.m.,  
2 reported by Michele E. Balmer, Certified Reporter.)  
3

4 CALJ FARMER: Let's go ahead and go back on the  
5 record. Mr. Mumaw, do you have your panel of witnesses  
6 ready?

7 MR. MUMAW: Yes, I do, Your Honor. As you can  
8 see, we have their little name cards in front of them for  
9 the benefit of both the bench and the court reporter, and  
10 they are all available for questioning.

11 CALJ FARMER: Thank you. Let me look to the  
12 parties. Mr. Grant, do you have any questions for the  
13 witnesses?

14 MR. GRANT: Just a few, Judge Farmer.  
15

16 JEFFREY B. GULDNER, DAVID J. RUMOLO,  
17 DANIEL T. FROETSCHER, PETER M. EWEN, (Cont'd)  
18 called as witnesses on behalf of APS, having been  
19 previously sworn by the Certified Reporter to speak the  
20 truth and nothing but the truth, were examined and  
21 testified as follows:  
22

23 CROSS-EXAMINATION  
24

25 Q. (BY MR. GRANT) First, I would like to ask why

1 all of you took my seat?

2 A. (BY MR. RUMOLO) You didn't keep this.

3 Q. Let me see. Just two or three subject areas.

4 Mr. Guldner, good afternoon.

5 A. (BY MR. GULDNER) Good afternoon.

6 Q. The settlement agreement at Section 10.2 states  
7 that the income associated with Schedule 3 proceeds is  
8 material to this agreement.

9 Have you got that provision of the settlement  
10 agreement in front of you?

11 A. (BY MR. GULDNER) I do.

12 Q. Could you explain to the Commission, please,  
13 Mr. Guldner, how and why the income associated with the  
14 Schedule 3 projected proceeds for 2010, 2011, and 2012, is  
15 material to the agreement?

16 A. (BY MR. GULDNER) Let me try by explaining the  
17 framework or how this, I think, fits into the framework of  
18 the overall agreement.

19 The settlement uses the Schedule 3 provision in a  
20 couple of ways. First, it was a method of lowering the  
21 initial rate increase to a level that the company felt it  
22 could perform its obligations under the agreement without  
23 actually causing an increase to rates that customers would  
24 have to pay initially.

25 The other thing it did was, as you can see from



1 the projections that the company has, we go from  
2 approximately 23 million of expected revenues in 2010, to  
3 49 million of expected revenues in 2012 as we see  
4 additional growth, expect additional growth to occur on  
5 the system. And so that trend over the three-year period  
6 is as important as well.

7 It's not just that it's the initial impact in  
8 2010. It's that its costs from additional infrastructure  
9 increase in 2012, the trend follows those additional  
10 costs. And so it supported the stay-out provision and  
11 allowed us to stay out and not have new rates in effect  
12 until sometime in middle to late 2012.

13 The other thing we, from a framework standpoint,  
14 felt that we were accomplishing with the Schedule 3  
15 provisions is we were able to do that without either, (a)  
16 changing the current Commission policy on the proceeds  
17 that were collected. In other words, we weren't imposing  
18 a new cost on a class of customers. We were essentially  
19 taking a cost that was already being paid and using it in  
20 different manners through the revenue treatment, and so we  
21 were able to do that.

22 And I think just to put a cap on the framework of  
23 this, was that we recognized and there's a provision that  
24 limits the time that this specific accounting is in place  
25 until the next rate case. It's not intended to extend

1 beyond the next rate case. We felt that, that way, there  
2 is an opportunity to continue to pursue the issue and look  
3 at the policy and decide what's the best thing to do on a  
4 long-term basis before we get to that next rate case.

5 So we weren't doing something that was a  
6 permanent change that you had to make a change now and you  
7 can't undo it. It was to say, let's put this in place  
8 today, continue to evaluate it.

9 And, frankly, as growth picks up in 2012, there's  
10 an opportunity then that if the decision of the Commission  
11 is, let's change that policy, that that, from an economic  
12 standpoint, is not an inappropriate time to have that  
13 decision made.

14 Q. So expressly by terms of the settlement  
15 agreement, the treatment of the Schedule 3 proceeds, let's  
16 call them, as revenue, is temporary by its very nature.  
17 It will only continue beyond 2012 if so ordered by this  
18 Commission?

19 A. (BY MR. GULDNER) That's correct. And there's  
20 two -- let me point you to two other provisions. Section  
21 10.4 was to make it clear that in that subsequent  
22 proceeding, we're not trying to limit or prohibit, and I  
23 don't think the parties intended that anyone would be  
24 precluded from advocating in that subsequent case what  
25 their belief of the appropriate policy would be. So we

1 addressed that specifically in Section 10.4.

2 And for the company, Section 10.5 was also  
3 important because it was to ensure that we could continue  
4 to discuss the impact fee and there was the generic docket  
5 on hookup fees that we could continue to discuss the  
6 overall policy of that even while this framework was put  
7 in place with the settlement.

8 We withdrew our hookup fee or impact fee proposal  
9 for purposes of the settlement agreement, but we think  
10 that's still something that should be discussed in a  
11 generic nature at the Commission.

12 Q. In the meantime, treatment of the Schedule 3  
13 proceeds as revenue will provide credit metrics support in  
14 the years 2010, 2011, 2012, both reducing the need for a  
15 larger current rate increase, as well as extending the  
16 period of time for the stay-out provision. Do I  
17 understand you correctly?

18 A. (BY MR. GULDNER) That's correct, although I  
19 would say it's more on looking at the earned return. A  
20 lot of the challenge in coming up with a framework that  
21 could support a stay-out through 2012, or middle of 2012,  
22 was to look at what we believe the actual earned returns  
23 were likely to be over that time period.

24 We had issued debt in the middle of the  
25 settlement at about 8.75 percent. That was the coupon

1 that was required for debt holders. And so from a  
2 financial framework, I'm sure Mr. Hatfield will talk about  
3 this when he's on -- it was trying to say, how can we --  
4 we know we need to be achieving earned returns in 2010 and  
5 2011 and 2012 for the equity financing that are at or  
6 better, or have the opportunity to be better, than we're  
7 paying bondholders. An equity investor is going to  
8 require a better return than a bondholder.

9 Q. Because a stockholder is at presumed greater  
10 risk?

11 A. (BY MR. GULDNER) A stockholder is at greater  
12 risk. And So to support the three-year structure of that  
13 initial stay-out provision, the earned return at to  
14 have -- had to realistically be in that 9, high 8,  
15 9 percent range.

16 And so again, what you see with the trend on  
17 Schedule 3 revenues is that as the costs go up, and that's  
18 what is causing the return to go down in the subsequent  
19 periods, additional investment in plant that's not  
20 reflected in rates, as those costs go up, the revenue  
21 pattern would go up additionally to match the costs. And  
22 so it's that increasing pattern as we see growth coming  
23 back on the system that helps support that stay-out  
24 provision.

25 Q. Okay. Thank you, Mr. Guldner.

1 Mr. Rumolo, good afternoon.

2 A. (BY MR. RUMOLO) Good afternoon, sir.

3 Q. I wanted to go to your -- I think it's APS  
4 Exhibit 17.

5 A. (BY MR. RUMOLO) Yes, sir.

6 Q. And Chairman Mayes touched a little bit on this,  
7 but I wanted to make sure that I understood. You  
8 testified this morning -- I'm looking at the column about  
9 the middle of the page that says reduction in revenue  
10 requirements on Page 2 of 2.

11 You said this morning, and I wanted to make sure  
12 that I have this correct, if the policy to treat  
13 Schedule 3 proceeds as revenue to APS had been in place,  
14 the current revenue requirements would have -- in this  
15 case would have been reduced by \$173 million.

16 Do I understand that correctly?

17 A. (BY MR. RUMOLO) That's correct.

18 Q. So because the non-fuel base rate increase is  
19 196 million, that means that this request would have only  
20 entailed 23 million, given all of the current assumptions  
21 of the settlement agreement?

22 A. (BY MR. RUMOLO) That's correct.

23 Q. Now, what you didn't discuss but I wanted to make  
24 sure I understood correctly is the next column under  
25 reduction in revenue requirements labeled Schedule 3

1 proceeds booked as CIAC.

2 Could you explain in the same way what that  
3 column is indicating?

4 A. (BY MR. RUMOLO) Yes. That would have reduced  
5 the \$196 million in the base rate increase by  
6 approximately 56.2 million.

7 Q. And is this because amounts previously  
8 received -- this assumes that the policy is CIAC amounts  
9 received would have reduced rate base and that would drive  
10 lower revenue requirements. Not as much as treating them  
11 as revenue, but treating them as CIAC would still have  
12 reduced the revenue requirements in this case by about  
13 \$56 million?

14 A. (BY MR. RUMOLO) Yes, that's correct. The  
15 receipt of Schedule 3 proceeds as revenue tends to be the  
16 one-year shot, the one-year snapshot for that test year.  
17 But this analysis assumed that the policy had changed in  
18 '05 and was treated as CIAC. So there's a cumulative  
19 effect that results in that \$56 million reduction in  
20 revenue requirement.

21 Q. Does the comparison of those two columns -- I'm  
22 sorry -- those two, I guess, blocks under the same column,  
23 does it also illustrate the point, which I think has been  
24 made by the company, that from a present value standpoint  
25 the benefits to customers are more immediate treating

1 Schedule 3 proceeds as revenue instead of as CIAC?

2 A. (BY MR. RUMOLO) That is correct.

3 Q. Okay. Thank you, Mr. Rumolo.

4 And Mr. Froetscher, good afternoon, sir.

5 A. (BY MR. FROETSCHER) Good afternoon.

6 Q. Just a couple of questions.

7 In questioning by counsel this morning, you  
8 discussed several issues concerning Schedule 3, and in  
9 particular line extensions associated with Schedule 3.  
10 One of the things that you discussed was that you said,  
11 and I was jotting quick notes, but you said it creates  
12 load pockets and, therefore, operational difficulties on  
13 the system.

14 Do you recall that testimony, and am I fairly  
15 accurately paraphrasing it?

16 A. (BY MR. FROETSCHER) I recall, yes. I understand  
17 the testimony you're referring to.

18 Q. Do you have any real-world actual examples of  
19 that?

20 A. (BY MR. FROETSCHER) I do.

21 Q. Could you provide those, please.

22 A. (BY MR. FROETSCHER) I could. Probably the best  
23 example that comes to mind is in an area in southeast  
24 Arizona, south and west of Bisbee, an area called  
25 Hereford-Palominas. A number of years ago, the company

1 built a 12kV distribution line from the general Bisbee  
2 area out into this area, Hereford and Palominas. It's  
3 about 18 to 20 miles in length.

4 And from there, with the 1,000-foot extension  
5 policy in play and private land there, we began  
6 incrementally receiving requests from customers for new  
7 service, let's call it 1,000-foot at a time, although, as  
8 I mentioned this morning, some of those customers pair up  
9 and might go 2,000 feet, 3,000 feet. But the point is, we  
10 were hooking customers up on a steady basis, but not in  
11 any kind of an organized fashion.

12 And so what happens over time is you have, at the  
13 end of an 18- to 20-mile long line, a growing cluster of  
14 customers who then began to experience issues like voltage  
15 and voltage support, electrical reliability issues because  
16 of the tremendous exposure an 18 to 20-mile long line has  
17 in terms of lightning and wind and things of that nature.  
18 And we began to receive service complaints, quite frankly,  
19 about the nature and the quality of our service.

20 So those are some of the underlying issues that  
21 are exacerbated, in my estimation, by the 1,000-foot free  
22 line extension policy, and the associated results then are  
23 additional costs that the company incurs in servicing  
24 those customers. There's the obvious ones. As you begin  
25 to add customers in that kind of a scenario, we obviously



1 have to go out and read the meters every month.

2 But the less visible costs include the  
3 troubleshooting time associated with responding, then, to  
4 service issues and voltage quality issues as the area  
5 grows over time. The temporary, quote/ unquote, fixes the  
6 company then makes in terms of its system reliability plan  
7 through the installation of capacitor banks and regulator  
8 banks and things of that nature.

9 And ultimately, in this case, a very real  
10 example, what we ended up having to do at some point was  
11 to build 20 miles of 69kV line and add a substation out in  
12 that area in order to provide those customers the level of  
13 service, quite frankly, that they're entitled to.

14 Q. Mr. Froetscher, I'm not certain this would be a  
15 very real-world kind of hypothetical, but let's say a  
16 customer under the new policy were to pay for that line  
17 extension. Couldn't you have the same phenomenon develop  
18 on the distribution system that you just described?

19 A. (BY MR. FROETSCHER) I'm not sure I understand  
20 the question. Can you try me again?

21 Q. Well, in other words, as I understand it, the  
22 problem being created was a number of customers extending  
23 1,000 feet from an existing facility. If you assumed all  
24 of them had the money to instead pay for 500 feet or 1,000  
25 feet, under the current policy could you have the same

1 situation develop?

2 A. (BY MR. FROETSCHER) We could have the same  
3 situation develop, yes, we could, if, all things being  
4 equal, customers instead of receiving that line extension  
5 for free were paying for the extensions.

6 Q. Is it just the free nature of the old policy  
7 lends itself more to that situation because there's no --  
8 at least up to 1,000 feet there's not much constraint on  
9 how long the extension is?

10 A. (BY MR. FROETSCHER) Well, no. I guess let me  
11 try to clarify that a little bit for you. The free 1,000  
12 foot, in my estimation, encourages somewhat hopscotch and  
13 leapfrog growth. Okay. It was not responsible for this  
14 load pocket being 18 to 20 miles out, per se, from the  
15 Bisbee area.

16 What it did contribute to, though, was  
17 accelerated, unplanned, disorganized, whatever term you  
18 want to use, growth out in that general area.

19 Q. Attachment to that particular line?

20 A. (BY MR. FROETSCHER) That's correct. And brought  
21 forth service and load serving issues sooner than would  
22 have otherwise occurred, for one. And then broadly,  
23 across the entire service area, 1,000 feet at a time,  
24 again, just encourages growth literally at those kinds of  
25 levels, 1,000 feet, or 1,200 feet, or 1,500 feet, or

1     2,000 feet, where lands are being bypassed that are not  
2     improved.

3             By rescinding that policy or in operating under  
4     the current policy, it's my belief, then, that growth will  
5     be more orderly, a little more incremental, and system  
6     efficiencies and system utilization go up.'

7             Q.    Okay.  A final question, Mr. Froetscher.

8             Mr. Faulkner this morning was talking about a  
9     situation where his company apparently had put fill dirt,  
10    as I understood it, around transformers that had been sunk  
11    and then placed in his place of business -- or I'm  
12    sorry -- in his development by APS.

13            Are you familiar with that situation, and do you  
14    have any additional detail in relation to that?  I think  
15    it was mentioned that APS had sent his company a letter in  
16    May of this year, I think, regarding the situation?

17            A.    (BY MR. FROETSCHER)  Yes.  I'm familiar with the  
18    circumstances.

19            Q.    Would you please describe them?

20            A.    (BY MR. FROETSCHER)  I can.  Mr. Mumaw, you had a  
21    copy of the letter?  Yeah, do you have a photo?  I thought  
22    I saw a photo or two of the transformers, and maybe we can  
23    send that to whoever is interested.

24            The picture you have there, Mr. Grant, is a  
25    pad-mounted or underground transformer at Mr. Faulkner's

1 development in Douglas.

2 When a development is constructed, as we  
3 discussed this morning, the customer through their  
4 contractors provides the trench and the conduit and frames  
5 up what we call the transformer pad. It stubs the conduit  
6 out that we will eventually pull our wire through at the  
7 transformer site. And customers are asked to perform that  
8 work and have APS inspect it at what is designated as  
9 final grade.

10 So when a developer is done with his earth work  
11 and conduit work, there's a pad sitting there that the  
12 transformer then will be placed upon when the APS crews  
13 come out to do the work, and it is supposed to reflect  
14 final grade.

15 What you see in the photo there is a transformer,  
16 a pad-mounted transformer, that's halfway covered with  
17 fill dirt and gravel, and a clear indication that the  
18 grade that was communicated as final at the time APS came  
19 out to install its facilities and the grade as it was  
20 subsequently and later established to be are two different  
21 grades. And the transformer could not possibly be opened  
22 or serviced or maintained or troubleshot or anything like  
23 that.

24 So the company's request to Mr. Faulkner in that  
25 case was to help us remedy the situation by reestablishing

1 grade in some fashion. Either the transformer needed to  
2 be raised, or the final grade needed to be lowered and  
3 tapered so that access to the transformer on a regular  
4 basis could be achieved.

5 Q. Mr. Froetscher, looking at this photograph -- I  
6 guess I would ask the company perhaps to mark this as an  
7 exhibit when it gets an opportunity.

8 But looking at this photograph, if I understand  
9 you correctly, in looking at the photo, it looks like  
10 after the transformer was installed by APS, correct,  
11 that -- I don't know what -- it looks like decorative rock  
12 or something was added to a depth of -- do you know how  
13 far the base of the transformer is below what we're seeing  
14 in the photo here?

15 A. (BY MR. FROETSCHER) Yes, Mr. Grant. I would  
16 estimate that to be a good 8, 10, 12 inches.

17 Q. So what ultimately was done, I take it, that that  
18 aggregate, or whatever we would call it, was then moved  
19 away, obviously, from the transformer by Mr. Faulkner and  
20 the whole area was sort of reshaped and regraded?

21 A. (BY MR. FROETSCHER) I can't tell you whether the  
22 resolution was pulling that aggregate and underlying soil  
23 back and making a gentle transition in terms of final  
24 grade to the transformer hatch that opens up, or whether,  
25 in fact, we came out and with his assistance raised the

1 transformer, spliced some cables and reestablished them,  
2 and that final grade is, in fact, today as reflected in  
3 that photo. I don't know which was the resolution. I was  
4 only gratified to hear this morning that the issue has  
5 been resolved.

6 Q. The problem has been remedied?

7 A. (BY MR. FROETSCHER) I think we heard that from  
8 Mr. Faulkner, yes.

9 MR. GRANT: Judge Farmer, nothing else. Thanks.

10 CALJ FARMER: Why don't we go ahead and mark that  
11 photo as an APS exhibit. Let's go off the record for a  
12 moment.

13 (A brief recess was taken.)

14 CALJ FARMER: Back on the record. Let the  
15 record reflect that the photograph of the transformer was  
16 marked as APS-19. Does APS want to move this exhibit?

17 MR. MUMAW: Mr. Grant had it marked, but since he  
18 represents shareholders, I'll move for its admission.

19 CALJ FARMER: Any objection to the admission of  
20 APS-19?

21 (No response.)

22 CALJ FARMER: Hearing none, it's admitted.

23 (Exhibit APS-19 was admitted into evidence.)

24 CALJ FARMER: All right. Mr. Crockett, do you  
25 have questions for the panel?

1 MR. CROCKETT: Thank you, Judge Farmer, Chairman  
2 Mayes. AECC has participated in essentially all of the  
3 discussions that produced the settlement agreement, which  
4 included the Commission's policy as it relates to the APS  
5 Schedule 3, which has to do with the line extension free  
6 build.

7 AECC has supported the Commission's policy and  
8 would advocate that it be continued as a result of the  
9 settlement agreement that has been entered into in  
10 connection with this proceeding. And the AECC witness,  
11 Kevin Higgins, I think rather extensively set forth the  
12 reasons why we believe that the continuation of that  
13 policy which eliminates the 1,000-foot free build from  
14 line extensions in rural areas is in the best interests of  
15 all ratepayers and is a just and reasonable policy, and,  
16 therefore, should be continued.

17 And for these reasons, I don't really have any  
18 questions for the panel, because I do know that the panel  
19 has supported the continuation of that policy.

20 CALJ FARMER: Thank you.

21 Does IBEW have questions for the panel?

22 MR. HASAKOVEC: We do, Your Honor. Thank you,  
23 Your Honor, Chairman Mayes.

24

25

1 CROSS-EXAMINATION

2

3 Q. (BY MR. HASAKOVEC) Mr. Froetscher, this is  
4 primarily directed to you, although anyone who feels able  
5 to address it is certainly welcome to.

6 You indicated before that you have confidence in  
7 the APS personnel, including linemen, who install the  
8 additional line under Schedule 3 and who perform these  
9 services in a safe and reliable manner.

10 Do you recall saying that?

11 A. (BY MR. FROETSCHER) I do.

12 Q. What is it about the personnel who do these line  
13 extensions that gives you that level of confidence?

14 A. (BY MR. FROETSCHER) The construction operations  
15 and maintenance personnel that APS has have either gone  
16 through our four-year apprenticeship program or earned a  
17 journeyman ticket or journeyman certification from another  
18 utility or through another program.

19 I mentioned this morning that we take a great  
20 deal of -- we take our work regarding the maintenance,  
21 operation, and construction of the system seriously. And  
22 in the 29 years I've been associated with APS, I, (a),  
23 believe that to be very true and believe that the  
24 workforce takes a great deal of pride in the quality and  
25 efficient construction of facilities; and (b) in terms of



1 being responsive, timely, and efficient and effective in  
2 the restoration of services from an emergency standpoint.  
3 So it has been my experience that as a broad based  
4 workforce, in combination with their affiliation with both  
5 APS and Local 387, that this is a skilled, highly trained,  
6 and proud workforce that performs very good work.

7 Q. And could you just characterize the overall line  
8 extension related safety record at APS?

9 A. (BY MR. FROETSCHER) The overall line extension  
10 safety record?

11 Q. That's right.

12 A. (BY MR. FROETSCHER) To my recollection, I am not  
13 familiar with any fatal or serious injury associated with  
14 line extension construction, if that, sir, is what you're  
15 referencing --

16 Q. That is.

17 A. (BY MR. FROETSCHER) -- in my time within a  
18 leadership capacity at APS.

19 MR. HASAKOVEC: Thank you, Your Honor.

20 CALJ FARMER: Mr. Robertson.

21 MR. ROBERTSON: Thank you, Your Honor.

22

23 CROSS-EXAMINATION

24

25 Q. (BY MR. ROBERTSON) Good afternoon, gentlemen of

1 the panel. Mr. Guldner, I think I'm going to start with  
2 you. Do you have a copy of your settlement testimony in  
3 front of you, specifically Pages 15 and 16 of that  
4 testimony?

5 A. (BY MR. GULDNER) I do.

6 Q. Starting on Line 26 of Page 15, and continuing on  
7 to approximately two-thirds of Line 4 of Page 16, the  
8 following statement appears. Quote, the company believes  
9 that the most appropriate way to address this issue is to  
10 allow the hookup fee docket to continue its generic review  
11 on the policy of line extension costs. And if there's  
12 still a desire to change the current policy and return to  
13 either a free footage or equipment allowance, to do so in  
14 the 2011 APS rate case, close quote.

15 Do you see that statement?

16 A. (BY MR. GULDNER) I do.

17 Q. Let me ask you, during the past few days of this  
18 proceeding, it's been suggested by several parties and  
19 witnesses that in the event the Commission decides not to  
20 change its current line extension policy in this  
21 proceeding that perhaps a workshop would be an appropriate  
22 next step. Do you recall that testimony and those  
23 suggestions?

24 A. (BY MR. GULDNER) Yes.

25 Q. Let me ask you to describe how you would

1 visualize procedurally or in terms of current activity the  
2 occurrence of such a workshop or workshops in relation to  
3 the current hookup fee docket that is currently underway.

4 A. (BY MR. GULDNER) Well, Mr. Robertson, I think  
5 they are complementary issues. I mean, you've got a  
6 number of issues that we've heard come out in both the  
7 public comment and the discussion here. For example, what  
8 is the appropriate design of line extension policies? Not  
9 necessarily a hookup fee, but perhaps some discussion  
10 about generically what should Arizona line extension  
11 policies look like could be appropriate in that type of a  
12 workshop.

13 We still have, I think, the issue of -- broader  
14 issue of impact fees or other things that aren't quite  
15 line extension fees but are related issues that I think  
16 warrant further discussion. And then you've got the issue  
17 as we're talking about in this case of how do we handle  
18 the policy of free footage or economic feasibility  
19 analysis, or, you know, what are the practices in other  
20 states? What has the experience in other states been?

21 I think all of those would be fair to discuss or  
22 consider in that type of a workshop.

23 Q. Could the workshop or workshops, as the case  
24 might prove to be, be conducted as a part of the generic  
25 proceeding on hookup fees, or would be visualize they

1 would be conducted separately but perhaps the record, so  
2 to speak, developed in the workshop could be considered  
3 within the context of the hookup fee docket and vice  
4 versa?

5 A. (BY MR. GULDNER) Yes, Mr. Robertson, they're  
6 both policy issues. I don't think there's -- you know,  
7 having policy issues discussed in one or two dockets and  
8 considered together, I don't see a particular challenge  
9 with that. I mean, it's whether the Commission wants to  
10 do them in separate dockets or the same docket. I don't  
11 think the company has a position on that.

12 Q. My next question is probably going to be a  
13 combination of a line of inquiry directed to Mr. Guldner  
14 and Mr. Rumolo.

15 But Mr. Rumolo, maybe I'll start with you. And I  
16 would like you to take a look at Page 2 of APS Exhibit 17,  
17 if you would.

18 A. (BY MR. RUMOLO) Yes, sir. I have it in front of  
19 me.

20 Q. Was this exhibit prepared under your supervision  
21 and direction?

22 A. (BY MR. RUMOLO) Yes, it was.

23 Q. Directing your attention to the upper part of  
24 Page 2, we see a line item of extension with a dollar  
25 sign, and then we see four following columns for the years

1 2005 through 2008.

2 Does the dollar information shown for the years  
3 2005 through 2008 represent the actual cost of the  
4 individual residential subdivision and nonresidential line  
5 extensions for those years?

6 A. (BY MR. RUMOLO) Yes.

7 Q. Why, then -- and this is more just a housekeeping  
8 question. Why, then, on the first line of the second page  
9 of that exhibit does the word "estimated" appear?

10 A. (BY MR. RUMOLO) It's estimated because in some  
11 cases for certain plant items they are pre-capitalized.  
12 So then we made an estimate of those pre-capitalized items  
13 into the total actual extension costs.

14 Q. For the year 2007, in that upper part of Page 2  
15 of the exhibit, we see the figure of \$173 million. And we  
16 see that same number down towards the center of the  
17 exhibit under the heading of reduction in revenue  
18 requirements, and it's on the line item description of  
19 Schedule 3 proceeds booked as revenue.

20 Do you see that?

21 A. (BY MR. RUMOLO) Yes, sir, I do.

22 Q. Is the \$173 million that appears in both places  
23 the same \$173 million?

24 A. (BY MR. RUMOLO) That's correct.

25 Q. Okay. Now let's move right below that to

1 Schedule 3 proceeds booked as C-I-A-C or CIAC. And the  
2 indication there is that if that treatment were applied  
3 for those particular proceeds, the resulting reduction in  
4 revenue requirements in this proceeding would be  
5 \$56.2 million; is that correct?

6 A. (BY MR. RUMOLO) That's correct.

7 Q. Now I'm going to leave it up to Mr. Guldner and  
8 you as to who responds to my next question. But during  
9 the course of Mr. Grant's examination of Mr. Guldner, and  
10 this related to why the income treatment resulting from  
11 the -- or the income resulting from the revenue treatment  
12 of Schedule 3 proceeds -- I'll get it out yet -- is  
13 material to this agreement.

14 And my notes indicated Mr. Guldner identified  
15 three things. First of all, that that particular revenue  
16 treatment allowed APS to accept a lower rate increase than  
17 otherwise would be necessary; second, that it allowed APS  
18 to agree to the stay-out provision as it related to its  
19 future rate cases; and third, and perhaps in many ways  
20 most crucially, it had a beneficial effect on the  
21 projected earned return on equity.

22 Against that background, gentlemen, let me ask  
23 you. Am I correct that those three benefits would occur  
24 with the Schedule 3 proceeds booked as revenue approach  
25 with the result reflected on Exhibit APS-17, Page 2, but

1 those benefits would not occur, if I understand the  
2 exhibit correctly, if the Schedule 3 proceeds were booked  
3 as CIAC?

4 A. (BY MR. GULDNER) Mr. Robertson, that is correct.  
5 If they're booked as a contribution in aid of  
6 construction, then they essentially come onto the books as  
7 a rate base offset. They don't come onto the books as  
8 revenue. Therefore, you couldn't grant a revenue credit,  
9 which is essentially what is happening with the revenue  
10 treatment is there's a revenue credit that's being applied  
11 to the revenue requirement that would otherwise be  
12 necessary for the company to have been able to perform  
13 under the agreement.

14 So if it came in as CIAC, you couldn't do that  
15 revenue credit. And it would have a lower rate base -- it  
16 would be a rate base offset going forward, but it would  
17 not accomplish the results that we were able to accomplish  
18 under the settlement.

19 Q. Now, Mr. Guldner, in Paragraph 10.2 of the  
20 settlement agreement, it projects the Schedule 3 revenues  
21 resulting from this revenue treatment which is proposed  
22 for the years 2010, 2011 and 2012, and those are on the  
23 order of 23 million, 25 million, and 49 million,  
24 respectively, correct?

25 A. (BY MR. GULDNER) Yes.

1 Q. Would it be correct in a sense to say, looking at  
2 this proposed treatment in revenues retrospectively as  
3 opposed to prospectively, and using APS Exhibit 17 as our  
4 starting point, that the materiality or the benefit as  
5 expressed on that exhibit is on the order of what would be  
6 the difference between 173 million and 56.2 million?

7 A. (BY MR. GULDNER) Mr. Robertson, can you say that  
8 again?

9 Q. Yes. As I understand it, the -- let's take the  
10 \$196.3 million proposed non-fuel revenue increase or rate  
11 increase in this case.

12 A. (BY MR. GULDNER) Okay.

13 Q. If you subtract 173 million from that, as  
14 Mr. Grant did, you wind up with a net difference on the  
15 order of 20.3 million, correct?

16 A. (BY MR. GULDNER) That's correct.

17 Q. If you accept -- or subtract 56.2 million from  
18 that, you wind up with an increase on the order of 140.1  
19 million; is that correct?

20 A. (BY MR. GULDNER) That's correct.

21 Q. So isn't that another way of expressing the  
22 materiality of the proposed difference in revenue  
23 treatment?

24 A. (BY MR. GULDNER) I think that's a fair way to  
25 express that difference, yes.



1           Q.    Okay.  Mr. Ewen, Mr. Mumaw was very brief in his  
2    direct examination of you.  He asked you the purpose of  
3    your prepared testimony, and you described that it was to  
4    rebut the Elliott Pollack report.

5                    Do you recall that testimony?

6           A.    (BY MR. EWEN)  Yes, I do.

7           Q.    Would you please summarize at this point in the  
8    record the nature of the rebuttal and the major points  
9    that you believe you're rebutting?

10          A.    (BY MR. EWEN)  Yes, I would be happy to.  What I  
11    was looking for in the Pollack report and in the testimony  
12    of the opposition parties was some sort of quantitative  
13    analysis that would lead us to understand why they thought  
14    that the line extension policy was causing the downturn in  
15    the economy in Arizona.  And as I went through the Pollack  
16    report and through the testimony, I found no statistical  
17    evidence or quantitative analysis that tied those two  
18    together.

19                   And secondarily, just through my own work and  
20    tracking the economy and forecasting what we thought was  
21    going to happen to the economy, I can tell you that we did  
22    not consider the line extension policy as a material -- as  
23    having a material impact on the future growth rate of  
24    Arizona.

25                   Looking at the Salt River Project service

1 territory where they did not have a change in line  
2 extension policy like we did, and noticing that their  
3 growth rate had slowed comparably but even more than ours  
4 had, I concluded that the line extension policy has had no  
5 material impact on the overall growth rate in the state of  
6 Arizona.

7 Q. Okay. Mr. Guldner, let me come back to you for a  
8 moment. I've just pencilled a couple of numbers here to  
9 sort of fine tune the questions that I was asking about  
10 the materiality of the proposed treatment of Schedule 3  
11 revenues.

12 And let me direct your attention back to Page 2  
13 of Exhibit A-17, and I'll ask you to accept the following  
14 subject to check. If we accept \$173 million being  
15 subtracted from \$196.3 million, we wind up with a  
16 difference of \$23.3 million. And if we subtract  
17 \$56.2 million from \$196.3 million, we wind up with a  
18 difference of 140.1 million.

19 That materiality I asked you about earlier,  
20 looking at it retrospectively, is more on the order of  
21 \$117 million, or the 23 being subtracted from the  
22 140 million; would that be correct?

23 A. (BY MR. GULDNER) That's correct.

24 MR. ROBERTSON: Thank you.

25 Your Honor, that's all I have.

1 CALJ FARMER: RUCO.

2 MR. POZEFSKY: Your Honor, I don't have any  
3 questions. As you can understand, this is in line with  
4 what was said before. This isn't my nature not to be  
5 asking a lot of questions on a subject that's important,  
6 but we are balancing the interests of two important  
7 constituents from RUCO's standpoint.

8 We do support the agreement, and I think what is  
9 being said by all of the witnesses is covering the areas  
10 that we are concerned with. So I just wanted to throw  
11 that out as a reason why I'm not asking any questions, and  
12 I don't have any questions. Thank you.

13 CALJ FARMER: Okay. Staff?

14 MR. HAINS: Thank you, Your Honor. Actually,  
15 I'll have some questions for -- I believe that are mostly  
16 directed to Mr. Froetscher, but I believe Ms. Scott may  
17 have questions for other witnesses as well, if that's an  
18 appropriate way to just switch off when I get done with my  
19 questions.

20 CALJ FARMER: That's fine.

21

22 CROSS-EXAMINATION

23

24 Q. (BY MR. HAINS) Good afternoon, Mr. Froetscher.

25 How are you doing?

1           A.     (BY MR. FROETSCHER) I hope I'm doing fine.

2           Q.     That's good to hear. I'm sure you are. And I  
3     don't actually have a great many questions for you, but I  
4     did want to discuss the topic you mentioned, the issue of  
5     the use of third-party contractors to provide some of  
6     these -- the extension services as opposed to turning  
7     solely to APS in-house personnel to perform those  
8     services.

9                     One, I wanted to confirm if I understood your  
10    prior testimony correctly to the extent that provided that  
11    these third-party contractors were appropriately qualified  
12    and skilled and certificated, that APS would be  
13    comfortable with permitting such personnel to perform the  
14    work?

15          A.     (BY MR. FROETSCHER) Yes, That is correct. You  
16    know, to repeat my comments from a few minutes ago, I'm  
17    very proud of the people that work for APS. I think we do  
18    a great job. But I understand the issues. I understand  
19    the need for some competitive choice, if you will. And  
20    provided the parameters are put into play, I don't see  
21    that APS would object to having some discussion about the  
22    use of third parties on our system.

23          Q.     I see, and I appreciate that.

24                     Are there any other qualifications aside from  
25    being a utility-trained journeyman, I guess you indicated

1 a lineman journeyman or an electrical journeyman  
2 certificate, that you can identify that would be other  
3 certificates or qualifications that APS would look for in  
4 order to determine that such personnel would be  
5 appropriately qualified?

6 A. (BY MR. FROETSCHER) Not my area of expertise at  
7 a granular level. Certainly certificated as a journeyman  
8 lineman. Would need to be some discussion about what work  
9 rules said contractors would work under. APS has an  
10 accident prevention manual that incorporates things like  
11 switching orders and clearances. When we get into this  
12 work activity with third-party contractors, it just needs  
13 to be recognized that these folks are working potentially  
14 on a live system. And so in terms of the processes, the  
15 policies, the procedures, those kinds of things, those  
16 parameters would need to be fleshed out.

17 Q. And those are all what you would characterize as  
18 among the safety issues that you identified and were a  
19 benefit of going through in-house personnel to perform --  
20 APS personnel who would already be familiar with these  
21 protocols and what not?

22 A. (BY MR. FROETSCHER) That's correct. But an  
23 electrical distribution system is not an area where you  
24 want to be surprised as you go about doing your work. So  
25 again, those are the safety issues that a framework needs

1 to be established.

2 Q. I see. And I think I understood you correctly at  
3 one point, and you can correct me if I'm wrong, but you  
4 indicated that APS has worked with approximately four to  
5 five groups of subcontractors for this sort of work in the  
6 past?

7 A. (BY MR. FROETSCHER) We employ the use of  
8 subcontractors on our system working, yes, under our  
9 direction. So the answer to that is yes.

10 Q. Okay. Just for my understanding, you weren't  
11 suggesting that the pool of personnel who would be  
12 appropriately qualified to perform the work is limited  
13 just to these personnel that have worked with APS in the  
14 past?

15 A. (BY MR. FROETSCHER) I'm not suggesting that,  
16 per se. I am suggesting that the qualifying or approval  
17 process of third-party contractors to do work on the  
18 system either for APS, but more germane to this  
19 discussion, for customers, follow the process or a similar  
20 process to what the company employs today in terms of  
21 prequalifying and preapproving contractors who do work on  
22 our behalf.

23 Q. Great. Another topic that you discussed in your  
24 testimony and your discussion with Mr. Grant earlier, you  
25 talked about the issue of service issues with respect to

1 providing service out to remote -- increasingly remote  
2 load pockets. Do you recall that testimony?

3 A. (BY MR. FROETSCHER) I do.

4 Q. And I just -- the nature of that discussion, feel  
5 free to correct me if I mischaracterize it here, but I  
6 understood it to be the issues with extending further and  
7 further out that there are quality of service issues just  
8 on a technical basis as the system expands. Would that be  
9 accurate?

10 A. (BY MR. FROETSCHER) Yes.

11 Q. Okay. If third-party contractors are employed by  
12 persons wanting to extend service under the existing  
13 system now and using their own personnel or a contractor  
14 of their choice, do you foresee that there could be  
15 additional safety or reliability issues to the extent that  
16 if, for instance, someone who wants to connect that's  
17 closer to the end point, that is, where the existing  
18 facilities are, rather than further out, hop-scotching as  
19 I think you put it earlier, that it could interrupt  
20 service to persons in between if not properly done?

21 A. (BY MR. FROETSCHER) Yes, that's a very real  
22 possibility. If I may, there's a couple of issues, I  
23 think, that are kind of interwoven into your question, at  
24 least as I understand it.

25 The current policy, if the current extension

1 policy stays, I believe that policy helps drive more of an  
2 in-fill related growth scenario than we have experienced  
3 in the past. Notwithstanding that, if customers are in a  
4 position to hire third-party contractors and feel as  
5 though they can do so cost effectively and that leads to  
6 extended line extensions, assuming they're constructed in  
7 a quality fashion and so on and so forth, when those line  
8 extensions, then, are connected to the system, we have --  
9 we have a scenario where sprawl is occurring and,  
10 ultimately, the upstream facilities that are the backbone  
11 to those more remote line extensions are going to have to  
12 be beefed up because there's more electricity being  
13 provided to a greater number of customers. So there is a  
14 resulting need to upgrade facilities further upstream at  
15 some point as growth occurs.

16 Did I answer your question?

17 Q. I think you did. That was more or less what I  
18 expected. I appreciate that response.

19 One final topic was something that was sparked by  
20 a comment you made on your direct. You mentioned that you  
21 had observed from public comment that you had heard at  
22 various public comment meetings a sensitivity to price  
23 consistency issues, of validating prices that have been  
24 quoted to persons who wanted to connect.

25 Do you recall that?



1 A. (BY MR. FROETSCHER) I do.

2 Q. To the extent that one of the modifications  
3 proposed to the existing Schedule 3 through the settlement  
4 agreement will provide for itemization of costs, for a  
5 schedule of the costs and whatnot, do you believe that  
6 would add to, one, at least contribute to alleviating some  
7 of the concerns that have been expressed on those points?

8 A. (BY MR. FROETSCHER) I do.

9 MR. HAINS: Thank you. That's all the questions  
10 that I have for you, Mr. Froetscher.

11 CALJ FARMER: Ms. Scott.

12 MS. SCOTT: Thank you, Your Honor. I have a few  
13 questions for Mr. Guldner, and then the remainder of the  
14 questions are for Mr. Rumolo.

15

16 CROSS-EXAMINATION

17

18 Q. (BY MS. SCOTT) Good afternoon, Mr. Guldner.

19 A. (BY MR. GULDNER) Good afternoon.

20 Q. I would like to start out by asking you just a  
21 few general questions on your opinion on the process  
22 itself that was used to arrive at the settlement  
23 agreement.

24 A. (BY MR. GULDNER) Okay.

25 Q. What are your feelings about the process that was

1 used in this case?

2 A. (BY MR. GULDNER) In terms of how the settlement  
3 negotiations were conducted?

4 Q. Yes.

5 A. (BY MR. GULDNER) I think the settlement  
6 negotiations were robust, and we engaged in discussions  
7 on -- as you can tell from the outcome of the settlement,  
8 we engaged in discussion on a wide variety of issues.

9 The participation in the discussions was also  
10 robust. Certainly, some folks that had issues in one  
11 particular area didn't appear at all of the meetings. But  
12 there was a structure in the meetings so that we knew what  
13 types of subject matter areas were being discussed  
14 generally, and a flow or a process to the meetings that  
15 allowed people to recognize when different topics were  
16 going to be discussed.

17 Q. Did APS docket notice of all of the settlement  
18 meetings before they occurred?

19 A. (BY MR. GULDNER) We provided notice of the  
20 meetings. We had an e-mail distribution list, and we  
21 arranged for a telephone conference bridge. So we had a  
22 number of the folks that particularly were out of town  
23 that participated telephonically.

24 Q. Okay. And with respect to any intervenors, and I  
25 believe there were only a few that did not participate in

1 all of the meetings, did APS meet with those  
2 representatives or routinely apprise them of developments  
3 that occurred in these meetings?

4 A. (BY MR. GULDNER) Well, if you're referring to  
5 Ms. Pecora -- we had the Hopi who were involved, and I  
6 know we reached out to -- the Hopi had intervened in the  
7 case, and we had reached out to the Hopi and we had  
8 discussed with them. I don't believe they participated,  
9 and sometimes that's just not knowing what their  
10 intervention related to. It could have just been to get  
11 on the mailing list to see what documents were there. So  
12 we did an outreach to the Hopi to ensure that they knew  
13 that they could participate if they wanted to. I don't  
14 believe that they did.

15 There were some other parties that intervened in  
16 the middle of the settlement discussions who would appear  
17 and make an appearance, and then sometimes would either  
18 conclude they were represented well by the parties who  
19 were there, some of the industrial companies, for example,  
20 and then didn't further participate, but in some cases  
21 provided letters of support for the settlement agreement  
22 that was reached.

23 Ms. Pecora was, I think, the only nonlawyer  
24 participant in the discussions, and I have to say I admire  
25 her involvement in the proceeding. It was a

1 challenging -- regulatory and rate regulation is a  
2 challenging topic. And she appeared at the first  
3 settlement meeting, I think, and we had some discussion  
4 afterwards. And we met, I know, a number of times with  
5 Ms. Pecora and her sons and some other folks, I think, who  
6 were related to that issue.

7 We had some discussions on the company's behalf,  
8 so we had some discussions about just how ratemaking  
9 occurs and trying to explain contextually where a lot of  
10 these issues were falling into play.

11 I did have a fairly senior member of my Staff,  
12 Barbara Klemstine, who was involved in following up, and  
13 we made sure we got data when it was requested and  
14 provided information to Ms. Pecora.

15 We also, I know, had several meetings -- I think  
16 we had one meeting at RUCO with RUCO, and I believe we  
17 copied Staff on much of our correspondence, and I think  
18 there was some meetings with Staff as well. But then they  
19 were involved in the same distribution of meeting notices  
20 as all other parties were.

21 Q. Okay. Moving on to another topic then. The  
22 current -- or the settlement agreement between the parties  
23 here supports retention of the Commission's current policy  
24 on line extensions, correct?

25 A. (BY MR. GULDNER) Yes.

1           Q.    But you would agree that the settlement agreement  
2           makes a number of changes, which I might characterize as  
3           improvements, to the current Schedule 3?

4           A.    (BY MR. GULDNER) I would agree.

5           Q.    Do you believe that Section 10.7 specifically of  
6           that agreement and the improvements contained therein  
7           address a lot of the concerns that have been raised by  
8           parties at the hearings thus far and also during the  
9           public comment sessions?

10          A.    (BY MR. GULDNER) Yes. Section 10.7, I think,  
11          evolved from a combination of things. First, obviously,  
12          the Tucson Electric Power case had come before, and they  
13          had made some changes to the line extension policy in that  
14          case.

15                We also had some experience with customer  
16          complaints which were coming in on the then existing  
17          Schedule 3, and we had a number of the letters to the  
18          docket prior to the public comment that were expressing  
19          similar concerns.

20                And so the modifications to Schedule 3 that were  
21          included in Section 10.7 are intended to respond to many  
22          of the concerns. The price transparency issue and being  
23          able to understand what the costs are, going to a schedule  
24          of charges which would be based on actual or historical  
25          costs similar to other service schedule charges that the

1 company has in its tariffs, we felt was a way of  
2 addressing the concern about how things seem to change  
3 between different job sites.

4 We had had some concerns or some issues in the  
5 past with the definition of local facilities and what  
6 exactly was included in the amended Version 10 of  
7 Schedule 3, so that was intended to resolve those issues.  
8 The itemized quotes, similar to the schedule of charges.  
9 And then, obviously, we had had some negative feedback on  
10 the lack of a refund provision for subsequent customers.  
11 So again, that was intended to address those concerns.

12 Q. And besides that, would you agree with me that  
13 another focus of some of the public comment, and indeed  
14 some of the discussion by witnesses presented so far has  
15 been on a landowner's ability to utilize third-party  
16 contractors to do portions of this work themselves?

17 A. (BY MR. GULDNER) Yes.

18 Q. And if you look at Page 19 of the settlement  
19 agreement, the top of the page, is that an expression of  
20 APS's current policy on landowner's use of third-party  
21 contractors?

22 A. (BY MR. GULDNER) It's an expression of current  
23 policy, but I think a lot of the discussion we've been  
24 having here is on a different issue. Because it has been  
25 the practice of the company for trenching conduit and

1 backfill, the nonelectrical work, that you have heard to  
2 be performed by third parties. And so this was to ensure  
3 that that wouldn't change as we changed the provisions of  
4 Schedule 3.

5 But the discussion that's occurring now about  
6 having electrical work performed by qualified third-party  
7 contractors would be, I think, a further extension.

8 Q. And that was the intent of this question was to  
9 ask you whether APS is now suggesting that it would be  
10 willing to look at going beyond what you currently allow  
11 to be done by third-party contractors?

12 A. (BY MR. GULDNER) And I think that's what you  
13 have heard Mr. Froetscher say is that we have -- we,  
14 frankly, have been reviewing some of the policies of other  
15 utilities and looking at what the appropriate  
16 qualifications would be. But is that something that we  
17 should be discussing? Absolutely.

18 Q. Do you know offhand, Mr. Guldner, how many states  
19 allow work to be done by third-party contractors?

20 A. (BY MR. GULDNER) There are -- let me answer  
21 this way. There are two things. Obviously, you can look  
22 at the tariffs and see what the online tariffs provide.  
23 It's probably helpful then to see what the experience is  
24 in other states.

25 We identified, I think it was in the compilation

1 that was provided, a reference to PG&E who has a tariff  
2 that discusses third-party competitive design and third-  
3 party competitive building. We conducted some further  
4 research and have identified, I think, Public Service of  
5 New Mexico has a provision for some third-party  
6 contracting.

7 So they range. Some of them just reference it in  
8 a paragraph and others will have more detailed provisions.  
9 I think the more detailed provisions respond to a lot of  
10 the issues you heard Mr. Froetscher comment on, which is  
11 you need to make sure that they're qualified and that the  
12 inventory -- so, for example, you're not maintaining  
13 inventory in spares on 80 different products. You have to  
14 be able to specify what products and what materials are  
15 used in the construction.

16 But we are looking at the policies in other  
17 states and seeing how that type of practice would be best  
18 implemented.

19 Q. And is my understanding correct that it would be  
20 APS's recommendation that the Commission hold a workshop  
21 to review this matter, or the use of third-party  
22 contractors for other portions of this work, and to work  
23 out the specifics on any such policy and to set a  
24 parameters which would -- a set of parameters which would  
25 govern the use of such third-party contractors?



1           A.     (BY MR. GULDNER) That's our recommendation. I  
2     think if you consider it from a builder or developer  
3     standpoint, having to understand, you know, four or five  
4     different practices, it may be easier if we have a more  
5     generic statewide practice in terms of addressing some of  
6     these issues.

7           Q.     Thank you. That's all I have for Mr. Guldner.  
8                 Good afternoon, Mr. Rumolo.

9           A.     (BY MR. RUMOLO) Good afternoon.

10          Q.     First of all, am I correct that your testimony  
11     addresses the proposed changes to Schedule 3?

12          A.     (BY MR. RUMOLO) That's correct.

13          Q.     And is it correct that you submitted an initial  
14     set of revisions to Schedule 3, and then that was  
15     subsequently followed by supplemental testimony which  
16     contained a revised version of Schedule 3?

17          A.     (BY MR. RUMOLO) Yes, that's correct. After the  
18     settlement agreement was filed with the Commission, we  
19     reviewed the terms of the settlement and created a draft  
20     set of rate schedules and service schedules and provided  
21     that to all of the parties.

22                 Upon review of the Schedule 3 and some of the  
23     other schedules by Staff, they had some suggestions and  
24     recommendations that I concurred with, and we incorporated  
25     that into the revised Schedule 3 that was provided with my

1 supplemental testimony.

2 Q. Okay. And just so we're specific, would those  
3 revisions be contained in APS Exhibit 15?

4 A. (BY MR. RUMOLO) Yes, I believe that's correct.  
5 I'm not sure of the sequencing of my various sets of  
6 testimony, but that sounds correct.

7 Q. Okay. And you would agree with me, would you  
8 not, that the Staff and APS are still discussing the  
9 revisions that you have filed to Schedule 3, and you're  
10 still trying to work on other areas where Staff had a  
11 concern?

12 A. (BY MR. RUMOLO) That's correct. We've had  
13 several conversations with Staff and provided quite a  
14 thick book, or an electronic version of a thick book, on  
15 how we developed our statement of charges, and we're  
16 discussing that with Staff right now.

17 Q. Okay. With regard to these revisions that the  
18 settlement agreement provides for, and again you would  
19 agree with me that 10.7 of the agreement is very general  
20 and just sets out essentially the improvements that the  
21 parties agreed upon in general terms, correct?

22 A. (BY MR. RUMOLO) That is correct.

23 Q. And then it was agreed that those would be  
24 implemented through a filing made by APS, a revision to  
25 its current Schedule 3 tariff, correct?

1 A. (BY MR. RUMOLO) That's correct.

2 Q. And the revisions to your tariff would more or  
3 less contain all of the detail that the settlement  
4 agreement did not contain, correct?

5 A. (BY MR. RUMOLO) That's correct.

6 Q. What is your understanding with respect to  
7 Schedule 3 and whether it would be approved in this  
8 proceeding or a separate proceeding?

9 A. (BY MR. RUMOLO) I believe it would be approved  
10 in this proceeding with all of the other rate schedules  
11 and service schedules.

12 Q. Okay. And I believe that that is also, just to  
13 state for the record, that is Staff's position as well.

14 With respect to the issues that you and Staff are  
15 still working on, including the schedule of charges, and I  
16 believe there's an issue relating to refunds, the refund  
17 methodology, several issues related to that, and there may  
18 be others, is it your understanding that Staff would  
19 intend to file a report in the docket in about a month or  
20 so setting forth those understandings or the positions of  
21 the parties if agreement cannot be reached?

22 A. (BY MR. RUMOLO) Yes. That would be a way to get  
23 it into the docket. It may require the settling parties  
24 to reconvene for a half day meeting to discuss it, or some  
25 other means.

1           Q.    But the end result, and your understanding is,  
2           would be some sort of report that if we couldn't come to  
3           agreement on the exact tariff revisions, would be some  
4           sort of report that would be filed probably within the  
5           next month?

6           A.    (BY MR. RUMOLO)   Yes, but I suspect that we'll  
7           come to resolution on the outstanding issues.

8           Q.    I have no reason to doubt that either.

9                   APS had proposed an impact fee, is that correct,  
10          prior to the settlement?

11          A.    (BY MR. RUMOLO)   Yes.   There was an impact fee  
12          described in my testimony in our original application in  
13          this case.

14          Q.    And you had also proposed a systems facility  
15          charge?

16          A.    (BY MR. RUMOLO)   That is correct.

17          Q.    And under the settlement agreement both of those  
18          are withdrawn, correct?

19          A.    (BY MR. RUMOLO)   That is correct.

20          Q.    Did you calculate how much revenue would have  
21          been collected under those various fees?

22          A.    (BY MR. RUMOLO)   Yes, I did.

23          Q.    And what is that amount?

24          A.    (BY MR. RUMOLO)   If you could give me a moment, I  
25          need to pull out some more papers.

1           For the hookup fee we had estimated \$53 million  
2    in my original testimony.

3           CHMN. MAYES: Over what period, Mr. Rumolo?

4           MR. RUMOLO: That's a one-year period.

5           CHMN. MAYES: Oh, every year, \$53 million.

6           MR. RUMOLO: And to clarify, of course that would  
7    change depending on how many hookups we had.

8           CHMN. MAYES: Right.

9           MR. RUMOLO: For the system facilities charge in  
10   the analysis that we performed in the preparation of our  
11   original case, in 2010, we estimated the system facilities  
12   would be about \$6.6 million, in 2011 about \$6.7 million,  
13   and in 2012 about \$12 million.

14          Q.    (BY MS. SCOTT) Okay. And those amounts were  
15   given up as part of the settlement, correct?

16          A.    (BY MR. RUMOLO) that is correct.

17          Q.    Let me see. Just a few other questions.

18                I believe you submitted APS Exhibit 18, correct?

19          A.    (BY MR. RUMOLO) Yes, that's correct.

20          Q.    And that was a survey, a quite comprehensive  
21   survey of other companies' line extension policies in  
22   other states, correct?

23          A.    (BY MR. RUMOLO) That is correct.

24          Q.    And just as a qualifier to these few questions  
25   that I have in this area, I want to just note that --

1 again, I'll reiterate that Staff supports the settlement  
2 agreement, which includes retention of the current line  
3 extension policy in Arizona.

4 However, this morning I was looking over this  
5 survey that you did, and it struck me how many different  
6 approaches there are to address this issue. Would you  
7 agree with me?

8 A. (BY MR. RUMOLO) Yes, I would. As a matter of  
9 fact, I sit on an EEI committee on rate and rate matters.  
10 Well, I'm the past chair of that committee. And line  
11 extension policies, it's a frequent topic of conversation  
12 because of the many, many, many varieties of policies that  
13 exist.

14 Q. And I found your exhibit particularly helpful,  
15 because in the third column you have actually broken this  
16 down by the type or the basis for the extension policy; is  
17 that correct?

18 A. (BY MR. RUMOLO) Yes, that's correct.

19 Q. And within those differences, the different bases  
20 for the line extension, there are enumerable variations  
21 from there, correct?

22 A. (BY MR. RUMOLO) Yes, that's correct.

23 Q. And would you agree with me that overall when you  
24 look at this survey, that the 1,000 free footage allowance  
25 that was in effect in Arizona before the current policy,

1 it's not a prevalent item in the survey? Would you agree  
2 with me? Or it's not the prevalent policy in the survey?

3 A. (BY MR. RUMOLO) That's correct. Quite frankly,  
4 looking at it quickly, I think there are only two states  
5 that had a policy that exceeded the 1,000 foot free.

6 Q. And even the 1,000 foot free, there were not many  
7 companies that utilize that approach?

8 A. (BY MR. RUMOLO) No. If you look at it, the most  
9 common that you'll see is either a revenue test, or a  
10 policy that may be one span, which is roughly 200 feet.  
11 There are a few that are a couple of hundred feet, but  
12 very few -- or again, I don't think any approach the  
13 1,000, other than the two states that slightly exceed our  
14 policy.

15 Q. And then a lot of these policies also seem to  
16 break it down between service extensions and line  
17 extensions, correct?

18 A. (BY MR. RUMOLO) That's correct.

19 Q. Given all of these different variations that  
20 present themselves in this survey, would you say that a  
21 change to the current policy may be best examined again in  
22 the context of a workshop?

23 A. (BY MR. RUMOLO) Yes, I think that would be a  
24 great avenue to get the variety of policies out and  
25 discussed and weighed and so forth.

1 Q. Okay. I just had one more question for you  
2 relating to the schedule of charges that you submitted,  
3 just a very general question.

4 Before the elimination of the free footage  
5 allowance, for the labor that you used to construct these  
6 line extensions, you used a combination of in-house  
7 personnel as well as third-party contractors, or a  
8 combination, correct? Is that what I understood before?

9 A. (BY MR. RUMOLO) Would you repeat the question  
10 again, please? I'm sorry.

11 Q. Sure. Before elimination of the free footage  
12 allowance when APS would go out and construct a line  
13 extension, you didn't just rely upon in-house personnel,  
14 but you used third-party contractors, or a combination,  
15 correct?

16 A. (BY MR. RUMOLO) I'll defer that question to  
17 Mr. Froetscher.

18 Q. Okay.

19 A. (BY MR. FROETSCHER) The majority of our new  
20 customer line construction is constructed by in-house APS  
21 crews. We do employ and use contractor crews. To be  
22 candid, we focus most of their work on what we would call  
23 asset management or distribution infrastructure upgrade  
24 projects and not customer-driven projects.

25 Q. Okay. Then under the current policy for the



1 in-house labor, is that recovered through rates elsewhere,  
2 or is it through the customer payment for the line  
3 extension? I think Staff was a little confused on that.

4 A. (BY MR. RUMOLO) Currently, when an extension is  
5 requested by a customer, distribution engineers use a  
6 tool -- a software tool that I'm not sure the correct name  
7 of it, but we call it EMAN -- to estimate the cost of the  
8 extension. That extension cost is based on our current  
9 materials costs and our labor to install those materials,  
10 and that's the basis for the charge to customers. And  
11 basically, using that EMAN tool is how we came up with the  
12 statement of charges that's found in my testimony.

13 Q. Okay. Does that mean that labor isn't counted,  
14 then, as part of the line extension rates?

15 A. (BY MR. RUMOLO) No. Labor is included, because  
16 it's the labor to install that. We don't distinguish  
17 whether the actual work was done by a contractor or  
18 in-house people. But it's the labor, typical labor to  
19 install a pad-mounted transformer or a pole, or whatever  
20 the particular piece of hardware is.

21 Q. Okay. There were two Commissioner questions  
22 yesterday that were not answered. And I believe that  
23 Staff may be going to address these, but I think you're  
24 the appropriate witness for these questions as well.

25 One of the questions was whether it was felt that

1 the treatment of Schedule 3 as revenues would encourage  
2 gold plating at all, or gold bricking. Do you recall that  
3 question?

4 A. (BY MR. RUMOLO) I think it was gold plating.

5 Q. Gold plating. That's what I thought. Do you  
6 have an opinion on that?

7 A. (BY MR. RUMOLO) I'll defer to Mr. Froetscher on  
8 that one.

9 A. (BY MR. FROETSCHER) That's very kind of you.  
10 I'm sure -- while I wasn't here yesterday,  
11 Counselor, I'm confident that the term was gold plating.  
12 And let me try to address that, because I don't think that  
13 concept has really surfaced in these discussions.

14 When the company prices the cost to serve a  
15 customer for a new line extension, there are times when,  
16 consistent with the work to serve that customer, there  
17 might be other work that it makes sense to do from an  
18 infrastructure standpoint for system reliability or other  
19 things.

20 APS customer service representatives, in working  
21 with our new customer construction clients, price out the  
22 work to be done on what we call a minimum cost to serve.  
23 In other words, if we choose to put in an additional  
24 switching cabinet in order to give an underground system  
25 certain flexibility or redundancy, or to plan for the

1 future as part of a customer construction project, the  
2 customer is not charged for that extra equipment. We  
3 write that off the work order as what is called system  
4 planning.

5 So what I'm trying to convey to you is this.  
6 When customers are seeking new service, we price the  
7 facilities needed to serve them as the minimum cost to  
8 serve. In other words, the bare minimum set of facilities  
9 that are needed in order to provide them service of  
10 sufficient voltage and capacity.

11 And if there are additional pad-mounted equipment  
12 or other material or equipment installed as part of that  
13 job that will benefit the system as a whole, the customer  
14 is not charged. The company characterizes that as what is  
15 called system planning and separates those costs out.

16 Q. Thank you.

17 A. (BY MR. FROETSCHER) You're welcome.

18 Q. The other question had to be with -- I believe it  
19 was asked by Commissioner Newman, and he wanted parties,  
20 Staff, or the company, or any of the intervenors, to give  
21 a brief history of how line extensions have been dealt  
22 with in Arizona in the past.

23 And I believe it's in the testimony already, at  
24 least I think it is. Do you have a reference point,  
25 Mr. Rumolo, where someone could go at this point in the

1 record and find that information?

2 A. (BY MR. RUMOLO) Yeah. Actually, yesterday  
3 afternoon I had one of the staff at our company go back,  
4 and she's a 30-year employee of the company. I think  
5 she's been in our department for most of that period of  
6 time. And she pulled kind of a history of our line  
7 extensions, starting with the 1954 vintage policy. I  
8 don't have a document to hand out, but I can prepare a  
9 summary of that and use that as an exhibit and present  
10 that when I appear again in this proceeding.

11 But in basic summary, the policy has evolved over  
12 time. You know, at one time, for example, when we have  
13 discussed the Version 8 of the policy, we have talked  
14 about the \$25,000 price cap on that policy. Years past --  
15 I've got a cheat sheet summary of the policies -- you  
16 know, that number was \$5,000 at one time, then it was  
17 increased to \$10,000, and then it was increased to 25,000.

18 And there have been different nuances in the  
19 policy over the years, but basically I characterize them  
20 as fine tuning, making changes just for the fact that  
21 costs have changed and the APS system has changed over the  
22 years.

23 The version of Schedule 3 that we filed in '07 in  
24 our last case when we dropped the free footage and went to  
25 an equipment allowance, was probably the -- up to then the

1 most radical change in the policy that was accepted by the  
2 Commission. Then, of course, that was changed subsequent.  
3 In that rate case the Commission ordered us to re-file  
4 Schedule 3, eliminating free allowances, refunds, and  
5 revenue tests. But I will prepare this cheat sheet into a  
6 more formal document and put that into the record.

7 MS. SCOTT: Thank you, Mr. Rumolo.

8 That's all of the questions I have, Your Honor.

9 CALJ FARMER: Okay. We're due for a break. So  
10 Ms. Pecora, you have questions for the APS witnesses, I'm  
11 sure.

12 MS. WYLLIE-PECORA: Yes.

13 CALJ FARMER: Do you have an estimate of how much  
14 cross you have or time?

15 MS. WYLLIE-PECORA: No. They're all over  
16 29 pieces of paper, so I don't know.

17 CALJ FARMER: Well, we'll come back here at 3:30  
18 by that clock on that wall. Thank you.

19 (A recess was taken from 3:16 p.m. to 3:38 p.m.)

20 CALJ FARMER: Let's go back on the record.

21 Mr. Grant, you have just indicated while we were  
22 off the record here that you had a procedural request?

23 MR. GRANT: Judge Farmer, I do. Thank you very  
24 much. When we were discussing tentative scheduling -- I'm  
25 losing track of time -- I think it was at the procedural

1 conference, I believe, last Thursday, we discussed at  
2 least tentatively Mr. Yaquinto being scheduled for Monday  
3 the 24th. It certainly was our contemplation that he  
4 would testify after APS had testified, and it's pretty  
5 obvious that we haven't made, I think, the progress  
6 everybody had expected toward getting APS' main case on.

7 So what I would like to request, Mr. Yaquinto is  
8 available on Thursday morning, or he could be flexible and  
9 be scheduled at some other time, with the exception of  
10 Thursday afternoon and Friday. But I would like to  
11 request that he not testify prior to APS putting on the  
12 main body of its case.

13 So I guess what I'm indicating is he not testify  
14 on Monday, if at all possible. I assume we're going to  
15 move to APS, maybe APS' main case on Monday.

16 CALJ FARMER: Did anybody have a comment on that  
17 request?

18 (No response.)

19 CALJ FARMER: We do still have two of  
20 Ms. Pecora's witnesses on Monday, correct?

21 MS. WYLLIE-PECORA: Your Honor, you can scratch  
22 Chad Fisher. He won't be here. So I just have one  
23 Monday.

24 CALJ FARMER: Chad Fisher will not be testifying?

25 MS. WYLLIE-PECORA: Correct.

1 CALJ FARMER: All right. He's excused for Monday.

2 MR. GRANT: Thank you very much.

3 MS. SCOTT: Your Honor, do you have Mr. Abinah  
4 and Ms. Keene down on Monday?

5 CALJ FARMER: No, I don't.

6 MS. SCOTT: They also had some line extension  
7 testimony.

8 CALJ FARMER: Okay. Let me just ask, Ms. Pecora,  
9 do you know how much cross-examination you have for the  
10 Staff witnesses on the Schedule 3?

11 MS. WYLLIE-PECORA: You know, if I had a little  
12 time I could organize, but no, I don't.

13 CALJ FARMER: But do you expect that you might  
14 have some questions for them?

15 MS. WYLLIE-PECORA: Yes.

16 CALJ FARMER: All right. We'll see how far we  
17 get with this panel today, because I know there are  
18 Commissioner questions for the panel. But you might want  
19 to let both of them know that they may be on Monday --

20 MS. SCOTT: Thank you.

21 CALJ FARMER: On the Schedule 3 testimony.

22 MR. POZEFSKY: Do you think, Your Honor, just  
23 looking ahead to today, we can get to Ms. Jerich, or is  
24 that within the realm of possibility?

25 CALJ FARMER: I don't think so. I mean, it's a

1 quarter until 4:00 now. It depends. Ms. Pecora  
2 doesn't --

3 MS. WYLLIE-PECORA: I honestly -- half an hour.

4 CALJ FARMER: Pardon?

5 MS. WYLLIE-PECORA: Half hour, 45 minutes.

6 CALJ FARMER: And I have some questions from  
7 Commissioners, and I have some questions so --

8 MR. POZEFSKY: Because she is available if we do  
9 get there.

10 CALJ FARMER: Okay, thank you.

11 Any other scheduling issues by anyone?

12 Okay. Ms. Pecora, it's your turn now to ask  
13 questions.

14 MS. WYLLIE-PECORA: Thank you, Your Honor. And  
15 these are going to be all over the board, because they are  
16 not organized.

17

18 CROSS-EXAMINATION

19

20 Q. (BY MS. WYLLIE-PECORA) You were speaking of the  
21 history. When you're doing that history, I would -- I  
22 don't know if there's any possibility of finding what was  
23 said at the creation of that 1,000 foot by the Commission  
24 or whoever, APS. I don't know who. You know, like what  
25 was the intent? Why did they give that 1,000 foot free?



1 I just would be curious.

2 A. (BY MR. RUMOLO) I sincerely doubt if there's  
3 anything from 1954.

4 Q. No records?

5 A. (BY MR. RUMOLO) I mean, I was born before then,  
6 but I don't think there's anything.

7 Q. Me, too. Okay.

8 One of my first questions, are any of you real  
9 estate appraisers?

10 A. (BY MR. GULDNER) No.

11 A. (BY MR. FROETSCHER) No.

12 A. (BY MR. RUMOLO) No.

13 A. (BY MR. EWEN) No.

14 Q. Are any of you realtors, licensed realtors in the  
15 state of Arizona.

16 A. (BY MR. GULDNER) No.

17 A. (BY MR. FROETSCHER) No.

18 A. (BY MR. RUMOLO) No.

19 A. (BY MR. EWEN) No.

20 Q. Now, where do you live, your home? What city?

21 A. (BY MR. GULDNER) Chandler.

22 A. (BY MR. FROETSCHER) Peoria.

23 A. (BY MR. RUMOLO) Scottsdale.

24 A. (BY MR. EWEN) Tempe.

25 Q. Okay. Do you think the line extensions helped

1 any of those cities grow?

2 A. (BY MR. GULDNER) I guess I don't know a lot  
3 about the history of Chandler, but I think in the very  
4 early days of the state we actually had a practice of the  
5 urban part of the state -- for example, if you look at  
6 downtown Chandler and downtown Gilbert, the company  
7 serves -- APS serves about a square mile in each of those  
8 cities, whereas, Salt River Project serves the remainder  
9 of the cities.

10 And I think historically that resulted from a  
11 practice where APS served more of the more tightly  
12 developed service territory, whereas, Salt River, which  
13 was not the same as a rural electric cooperative, but a  
14 municipal utility with primarily an agricultural  
15 irrigation type of customer, would serve the broader areas  
16 of the state.

17 So actually, in that case, at least in the case  
18 of Chandler, I think APS was probably less involved with  
19 line extensions than SRP, which just would have been  
20 municipal practices.

21 I don't know if you guys have anything else to  
22 add.

23 A. (BY MR. EWEN) I think the only thing I would add  
24 to that is in certain isolated circumstances, I'm certain  
25 that that line extension policy did help some of those

1 areas grow, much like Mr. Froetscher's description of  
2 Hereford-Palominas, or whatever that area was that he  
3 described earlier. So in that context, I'm certain that  
4 growth did occur.

5 And what would be difficult to assess, but to be  
6 fair, would be what was the impact on the rest of the  
7 community that then had to pay for that additional cost of  
8 growth, and that's what is missing from any of the  
9 analysis in this case.

10 Q. Thank you. Do any of you own any vacant,  
11 unimproved land in the state of Arizona?

12 A. (BY MR. GULDNER) No. I live next to a lot of  
13 it, but I don't own any of it.

14 A. (BY MR. FROETSCHER) I do not.

15 A. (BY MR. RUMOLO) I do not.

16 A. (BY MR. EWEN) No.

17 Q. Thank you. Okay. You were talking just recently  
18 about impact fees. That's why I said it is all over the  
19 board, because you were talking about impact fees so I  
20 wrote down a question.

21 The impact fees that you did not include in the  
22 settlement agreement, what were they and how much were  
23 they?

24 A. (BY MR. RUMOLO) In our direct case, we had  
25 proposed impact fees that were based on the service

1 entrance size, or the amount of electricity that the  
2 customer would require. We computed those on a couple of  
3 pieces. One was the tax effect, revenue requirement due  
4 to CIAC, and the other was costs associated with other  
5 infrastructure development such as expanded computer  
6 capability and so forth. So those were the costs that we  
7 had included.

8 Q. Was it a one-time fee?

9 A. (BY MR. RUMOLO) Yes, it was a one-time hookup  
10 fee.

11 Q. And who paid it?

12 A. (BY MR. RUMOLO) No one, because it was  
13 never implemented.

14 Q. I mean, if it would have been implemented, then  
15 who would be paying that?

16 A. (BY MR. RUMOLO) The first person who built a  
17 home, whether it was rural, or in town, or whatever, and  
18 connected to the APS system.

19 Q. And what was the average fee?

20 A. (BY MR. RUMOLO) I would have to look at my old  
21 testimony. I'm thinking for like a residential customer  
22 it was like \$1,500 or something.

23 Q. Okay.

24 A. (BY MR. RUMOLO) But that's subject to check.

25 Q. All right. APS does use outside contractors,

1 subcontractors. Subcontracts, you know, work.

2 When you do that, how do you decide? Do you put  
3 out open bids? Do you take -- how do you decide which  
4 subcontractors you're going to use?

5 A. (BY MR. FROETSCHER) The projects that end up  
6 employing the use of outside electrical contractors are  
7 put out to bid.

8 Q. And there's a few licensed, approved contracting  
9 companies that APS --

10 A. (BY MR. FROETSCHER) There are a number of them.  
11 The exact number, Ms. Pecora, I don't have off the top of  
12 my head, but yes, there are a number of them and they  
13 would then bid the projects.

14 Q. But right now, as it exists, because we -- we  
15 meaning individuals who are going for line extensions, we  
16 can only go to APS. So basically, we can't get a bid from  
17 anybody else. There's no competition. And again, that  
18 goes back to facts that we've talked about before. So  
19 it's just, again, reinstating that we would like to see  
20 the ability to subcontract ourself.

21 In the 1980s, I worked in the City of Phoenix in  
22 the mayor and the council office, and we were doing a lot  
23 of work with the general plan and the village concept.  
24 And at that time, 40 percent of the land in the City of  
25 Phoenix was vacant. So this hopscotching that you talk

1 about doesn't really sound any different.

2 I mean, we were pushing then to why are we going  
3 to the outlying areas when 40 percent of the vacant land  
4 is here and it's already got utilities, the streets are  
5 already there, the sidewalks, the electricity. We had the  
6 same dilemma. People just didn't want to be in the city.  
7 They wanted to be out there. So I think there is a  
8 philosophy that just exists and people like being in the  
9 outlying areas.

10 Okay. When a transformer -- I'm going to ask the  
11 same question that I asked to Mr. Faulkner. If a person  
12 has a lot and they want to get electric to their property,  
13 and APS comes out and says, okay, it's going to be \$6,000  
14 because we have to change the transformer, it's old, and  
15 \$1,300 for something else, and he agrees to do this, and a  
16 month before he hires you to do the work the transformer  
17 is struck by lightning. What happens?

18 A. (BY MR. FROETSCHER) If the transformer is struck  
19 by lightning a month before it was due to be changed out  
20 to accommodate the new construction, then APS personnel  
21 respond and they change out the transformer in order to  
22 restore service to the affected customers.

23 If I may for just a moment, in Mr. Faulkner's  
24 testimony, Ms. Pecora, I didn't and do not understand  
25 where the \$1,300 that he referenced came from, and so I'm

1 not able to address that. I frankly don't know what that  
2 number reflects or what it's supposed to capture or  
3 incorporate. I don't know.

4 I did do some checking based on Mr. Faulkner's  
5 testimony at the public meeting that was held here at the  
6 Commission headquarters a couple of weeks ago, and the  
7 in-fill lot that Mr. Faulkner referenced was never visited  
8 by APS personnel or with Mr. Faulkner. In other words,  
9 there was no site visit done.

10 My employees in Douglas tell me that Mr. Faulkner  
11 inquired about service to an in-fill lot, and he was  
12 advised that the cost to extend the service could run  
13 anywhere from a couple of hundred dollars if it was just a  
14 service drop off of existing facilities, or could range  
15 upwards of 5- or \$6,000 if a transformer needed to be  
16 changed out.

17 The underlying reason why a transformer would  
18 need to be changed out, however, is not reflective of age.  
19 It instead would be a function of the number of existing  
20 homes that are already being served off of that  
21 transformer and whether the addition of another home  
22 taking service off of that same transformer would put that  
23 transformer in what we call an overload condition.

24 And if that were to be the case, then in order to  
25 accommodate the service to the new house that then is

1 taking the existing transformer beyond its capacity, the  
2 transformer would have to be changed out to a larger  
3 transformer in order to meet the needs of not only the new  
4 home, but those prior homes that were already receiving  
5 service from it.

6 Q. Thank you. I didn't mean to pick on his example,  
7 but there was another man that came to one of the public  
8 meetings, and he had a car wash that he had purchased, and  
9 he, too, wanted to just improve. So that's why I asked  
10 the question, if it blows beforehand, who pays for it?

11 A. (BY MR. FROETSCHER) If it blows beforehand, the  
12 company changes it out and we all pay for it somewhere  
13 down the road.

14 Q. Thank you. The line extension policy prior to  
15 2007, how did -- okay. How was the old policy paid for?  
16 By this, how did it show up on people's utility bills and  
17 what did it say? Did it say -- well, what did it say?

18 A. (BY MR. RUMOLO) I'm not quite sure I understand  
19 the question, but let me take a shot at it.

20 If a customer requested an extension, there would  
21 be -- Daniel can correct me on the process -- an extension  
22 agreement is signed, and the customer is required to make  
23 advances under the old policy if the economic feasibility  
24 dictated that an advance was required, and the customer  
25 would basically have to advance those funds prior to



1 construction. So it doesn't show up in an electric bill.  
2 I believe it's a separate invoice.

3 Q. Okay, thank you. But what I meant is the  
4 ratepayers that exist throughout the service area of APS.  
5 How did they know they were paying for line extensions?

6 A. (BY MR. RUMOLO) Extensions like the 1,000 feet  
7 free?

8 Q. Yes.

9 A. (BY MR. RUMOLO) They were included in our rate  
10 base, which is one -- one component that helps the  
11 Commission establish rates for Arizona Public Service  
12 Company.

13 Q. Okay. I guess what -- and maybe there was  
14 nothing, but again, one of the gentleman that came to a  
15 public hearing came up to the podium with a bill, and \$65  
16 was for electricity, and 85 or 75 was for subsidies or  
17 whatever.

18 Was there something on the bill prior to  
19 July 2007 that indicated to the ratepayers out there in  
20 the community that they were paying for line extensions?

21 A. (BY MR. RUMOLO) Well --

22 Q. 1,000 foot free thing.

23 A. (BY MR. RUMOLO) Quite honestly, the gentleman  
24 really didn't understand his bill, because what he was  
25 quoting when he said the price of electricity -- and I

1 can't remember the number. I think he said \$65 or  
2 something like that, and then there are other line items.

3 Q. Uh-huh.

4 A. (BY MR. RUMOLO) Those line items are the  
5 unbundled components of the bill that are required by the  
6 Commission after the competition rules were established.

7 So when he said that his cost of electricity was  
8 \$65, that was strictly the cost of generating or  
9 purchasing the actual electrons. The distribution or  
10 delivery fee that he cited, that is for the cost of  
11 Daniel's operation. That's the cost for the wires.

12 Prior to, I think it was 2005, those charges were  
13 just bundled into one price. So that just like when you  
14 go to the gas station and you pay \$3 and whatever cents a  
15 gallon, and that includes the delivery of the gasoline to  
16 that gas station and the cost of the station and the pumps  
17 and so forth. Prior to unbundling of the electric bills,  
18 it was all rolled into the price of the -- the one price.

19 Q. Okay. So what you're saying is when I was  
20 getting my bills, my electric bills prior to July of 2007,  
21 there was one line in there that included a whole bunch of  
22 different stuff. It wasn't spelled out that you're paying  
23 20 cents this month for 1,000-foot line extensions that  
24 are free?

25 A. (BY MR. RUMOLO) You never saw that granularity.

1 It was just built into the price. And just like today,  
2 for the average residential customer, the wires piece,  
3 which is the line extensions and the backbone and the  
4 substations, and all of the other things that are used to  
5 deliver electricity from the transmission system to your  
6 house, are included in the delivery charge. And for an  
7 average residential customer, that's about 2.5 pennies per  
8 kilowatt hour sold. So it's a very small component of the  
9 total electric bill.

10 Q. All right. Are APS customers -- again, the  
11 customer base out there, APS's territory, are we still  
12 paying to extend facilities on the Native American  
13 reservations?

14 A. (BY MR. FROETSCHER) Ms. Pecora, the 1,000-foot  
15 free line extension policy continues in effect on Native  
16 American reservations. And the costs associated with  
17 those extensions as incurred by the company, then, at some  
18 future point will be rolled into rate base and would show  
19 up in the delivery charges. Not a set of fees singularly  
20 highlighted for those extensions, but the overall bundle  
21 of delivery charges that Mr. Rumolo just described on the  
22 bill.

23 Q. This question -- and I'm sure there's an easy  
24 explanation for it, but I know that there is a part of the  
25 settlement that allows for the poor or low income to have

1 a credit on their bill and not be affected by this  
2 possible increase.

3 What do you have to make to be low income?

4 A. (BY MR. RUMOLO) To qualify for our low income --

5 Q. Yes.

6 A. (BY MR. RUMOLO) -- programs? It's, for a family,  
7 150 percent of the federal poverty level.

8 Q. Which is?

9 A. (BY MR. RUMOLO) I'm not sure. I think one of  
10 the -- someone testified the other day that for a family  
11 of four it was \$44,000, I believe, subject to check. I'll  
12 have to clarify that.

13 Q. But it's around that, okay. So the Native  
14 Americans on the reservations, are they considered the low  
15 income?

16 A. (BY MR. FROETSCHER) All customers are eligible  
17 to apply for the E-3 and E-4 discounts that are standard  
18 APS tariffs, and that would include Native American  
19 customers on the reservation.

20 Q. Okay. But I guess my question is why is the  
21 Native Americans excluded from the 1,000 foot line  
22 extension revision? They are on the old one, correct?

23 A. (BY MR. FROETSCHER) They are. And I am not in a  
24 position to explain to you what the rationale there was.  
25 I can speculate, but I would prefer not to.

1           Q.    Thank you.  How is a prospective APS customer  
2           that has a transformer on the corner of his property going  
3           to know that he may have to pay for a large portion of the  
4           previous extension in addition to his now standard 6- to  
5           \$10,000 hookup fee on that refund schedule?

6           A.    (BY MR. RUMOLO)  Could you run that one by me one  
7           more time?  I didn't quite follow it.

8           Q.    How is a prospective APS, okay, somebody is out  
9           there looking at a piece of property that doesn't have a  
10          house on it right now, and he's looking to buy the  
11          property.  And there's a transformer, so there is  
12          electricity on the corner of the property.

13                How is he going to know that he might have to pay  
14          a large portion of the previous extension, let's say just  
15          two months ago it was brought in, in addition to his  
16          standard 6- to \$10,000 hookup fee?

17          A.    (BY MR. FROETSCHER)  May we for just a moment?

18          Q.    Certainly.

19                (A brief discussion was held off the record.)

20          A.    (BY MR. RUMOLO)  On the extension itself, the  
21          transformer location may not be relevant.

22          Q.    I may have the wrong word.

23          A.    (BY MR. RUMOLO)  It depends on where the house is  
24          going to be located, because we have limits on service  
25          extensions.  But when the person will apply for service,

1 the second person, he'll contact the customer service  
2 reps, you know, that deal with new construction, and  
3 that's the point where they will figure out the cost of  
4 the extension, plus the reimbursement to the first  
5 customer, if necessary.

6 Q. So that will all be done in your bookkeeping  
7 system?

8 A. (BY MR. RUMOLO) Yes.

9 A. (BY MR. FROETSCHER) If I may, Ms. Pecora, I'll  
10 grant you, what you're really describing here is the  
11 second customer coming in, needing to pay 50 percent or a  
12 half portion of the shared facilities that they're  
13 extending from that the first customer paid to put in.

14 Q. Correct.

15 A. (BY MR. FROETSCHER) And I'll grant you that a  
16 property owner, that that won't be intuitive to a property  
17 own. And so that education about the second customer  
18 having to pay not only the line extension cost to serve  
19 them but the 50 percent or half of the shared facility  
20 costs that were used to serve Customer No. 1 is a  
21 discussion and a dialogue and an educational process that  
22 will take place when they come in and see my employees and  
23 apply for service.

24 Q. Thank you. Is it possible that he -- again, this  
25 kind of same scenario -- would have to pay two or three or

1 more extensions? You know, I mean, had it -- like one  
2 guy, and then like you were talking before, a domino  
3 effect, 1,000 foot, 500 feet, and whatever. So two or  
4 three people would be involved in getting refunds?

5 A. (BY MR. RUMOLO) As presently drafted, the refund  
6 is for the first person. But, in theory, it could be a  
7 domino of other extensions.

8 Q. Thank you. All right. On this -- and I don't  
9 know what it's called, Exhibit -- Exhibit 17.

10 As I said early on in this process that I'm not  
11 an accountant, and I certainly don't understand it. But  
12 the only question I have is where it says: Rate impact if  
13 current extension policy had been in effect from 2005 to  
14 2007.

15 The current policy didn't become the current  
16 policy until July of 2007. There was a \$5,000 allowance  
17 applied until sometime in 2008. So what would those  
18 figures be if you used the one year that that was in  
19 effect, which would be from like the middle of 2008 to the  
20 middle of 2009? And even then, you probably got people to  
21 do extensions that weren't aware of the policy.

22 I just don't think that these figures that we're  
23 using here, even pretending, because you're not taking  
24 into effect what that new policy has had on the rural  
25 communities. Okay? You're saying, okay, the 2005 to

1     2007, we're going to pretend that we had all of this  
2     business. I think we've got to pretend that we didn't  
3     have all of that business to come up with those numbers.

4           A.     (BY MR. GULDNER) Ms. Pecora, let me take a shot  
5     at responding to that. The two hypotheticals here were  
6     meant to illustrate what would have been the effect on the  
7     revenue requirement in the case.

8                   And so when we filed the current rate case, we  
9     use what is called a test year, which is a year where the  
10    costs and the facilities and the rate base will be  
11    determined for purposes of setting the required revenues.

12                   And so what this illustration was intended to  
13    show was the effect had we had a policy in place prior to  
14    that test year case being filed, so had we had the policy  
15    in effect from 2005 through 2007, what would have been the  
16    effect on, essentially, the rate request that would have  
17    resulted.

18                   And so there were two potential ways that that  
19    policy could have been put in effect. One is where the  
20    facilities had been put into service with what is called a  
21    rate base offset. That's the CIAC approach on the bottom.  
22    And so had we had the policy in place, that treatment  
23    would have lowered the revenue requirement by 56.2 million  
24    in the test year case that we had filed.

25                   The second example shows that if we were



1 collecting the charges that we actually incurred in 2007  
2 and used instead a revenue credit approach, that  
3 essentially we would have collected 173 million of our  
4 revenue requirements through this Schedule 3 policy, and  
5 it would have offset the amount of the rate increase we  
6 would have to collect through remaining rates by  
7 \$173 million. So the purpose of the exhibit was more just  
8 to show what the effect would have been under the two  
9 different accounting treatments had we had the policy in  
10 place beforehand.

11 One of the challenges in terms of responding to  
12 your question about, well, can't you tell me what it would  
13 be today, is that we put the policy in place with a  
14 grandfathering provision. And so a lot of the extensions  
15 that came in -- and Mr. Rumolo may have a bit more detail  
16 on the cost -- but some of the extensions that would have  
17 come in in 2008 you can't really reflect because they were  
18 still coming in under the old policy.

19 And the tapering of growth, you can see in here  
20 in 2007, we had a significant amount of construction still  
21 occurring. It tapered down to 119 million in 2008. And  
22 based on our current projections, which are the revenue  
23 provisions in the settlement agreement, I don't know the  
24 number for 2009, but in 2010 we're down at 23 million. So  
25 the extension money that was coming in is reflecting that

1 decline in growth.

2 So I'm not sure I answered your question, but I  
3 was trying to explain the context in which we prepared  
4 that exhibit.

5 Q. Thank you.

6 A. (BY MR. RUMOLO) If I may, Ms. Pecora. You asked  
7 a little bit ago on the low income.

8 Q. Yes.

9 A. (BY MR. RUMOLO) For a family of four, 150  
10 percent of the poverty level is \$33,000 annual income.

11 Q. 33,000. Okay, thank you.

12 This might sound like a silly question, but why  
13 does APS advertise and put money into sports teams and  
14 stuff like that?

15 A. (BY MR. GULDNER) APS doesn't put money into  
16 sports teams. As we talked about this cost of service  
17 that we do, we build up the costs that go into our rate  
18 case and our request for any rate relief based on costs  
19 incurred by APS. And so there are no sports sponsorships  
20 at APS. There are no sponsorships that are reflected in  
21 the rate request that we make.

22 The company does do some advertising. We have  
23 pared down on the advertising. We do advertise both in  
24 connection with the Commission programs such as  
25 demand-side management, energy efficiency, renewable

1 energy standards, where the advertising in some cases, the  
2 marketing expenses in some cases are paid as part of the  
3 program expense. Other advertising that is done is  
4 production related.

5 We've shifted all of those advertising costs into  
6 supporting those programs. So there's some safety related  
7 advertising, I believe, and some other that are related to  
8 social benefit programs, but those costs are intended to  
9 advance either safety or similar themes, or programs that  
10 the Commission has identified as policy objectives that it  
11 wants --

12 Q. Energy?

13 A. (BY MR. GULDNER) Energy efficiency, renewable  
14 energy standards, and so forth.

15 Q. Thank you. Does APS contract to have trees  
16 trimmed?

17 A. (BY MR. FROETSCHER) We use a combination of  
18 contract crews and in-house crews.

19 Q. Okay. Do the people with the trees, the  
20 cost-causers, pay for this service, or is it passed on to  
21 everyone?

22 A. (BY MR. FROETSCHER) The cost of tree trimming is  
23 blended into our overall cost of service and is reflected  
24 in the rates that are paid by all of our customers.

25 Q. All right. In your opinion, did the change in

1 Schedule 3, Revision 8, encourage or discourage developers  
2 from building in Arizona, rural Arizona?

3 A. (BY MR. EWEN) Ms. Pecora, I assume what you mean  
4 is the elimination of Revision 8, moving to Revision 9,  
5 and then Revision 10.

6 I think in certain isolated circumstances, and  
7 we've heard from some folks both in public comment and  
8 here today, that there may have been some impacts to their  
9 development plans.

10 But in general, when looking at the overall  
11 housing market in the state of Arizona, it's very tough to  
12 make a case that the change in the line extension policy  
13 has significantly affected especially subdivision  
14 development. And in the metro Phoenix area, our  
15 calculations are that there are somewhere around -- well,  
16 just in the APS service territory in metro Phoenix, there  
17 are about 35,000 already built but unoccupied homes and  
18 apartments that have electric service to them.

19 And it's hard for me to understand how the  
20 incremental cost of a line extension policy -- of a line  
21 extension gets factored into somebody when they already  
22 have an option that has service running to it. So those  
23 homes are not selling. They are vacant today. And I  
24 think that the better conclusion really is that the  
25 housing market is overbuilt, and all property owners are

1 suffering, as indeed I have seen my own house value go  
2 down.

3 Q. Correct. Well, now, just following on that, all  
4 of these empty houses and apartments and townhouses, does  
5 that show up in this rate? I mean, does that have an  
6 effect on this request for a rate increase because of a  
7 decrease in revenue generated from those empty houses and  
8 empty buildings?

9 A. (BY MR. EWEN) Well --

10 Q. I mean, I guess is your income significantly less  
11 because of it?

12 A. (BY MR. GULDNER) Let me address that. It  
13 presents more challenges, because one of the things that  
14 has occurred is we have homes that are interconnected on  
15 the system that are not consuming electricity. That  
16 creates costs that are different than we're used to  
17 seeing.

18 When we have an extensive amount of growth, we  
19 incur costs to extend facilities and to put the  
20 substations and the transformers and things in to serve  
21 that additional growth, and then we incur operations and  
22 maintenance costs to maintain those facilities and to do  
23 repairs and to do replacements, and that cost gets offset  
24 with revenues that are produced from those homes consuming  
25 electricity.

1           So as we have seen a significant amount much  
2   foreclosure activity in the state, one of the pressures  
3   that's put on us from a revenue standpoint is we've got a  
4   lot of homes that have these facilities that we need to  
5   recover in our revenue stream that we're not recovering  
6   because the homes are empty and they were not consuming  
7   electricity.

8           So there's some savings because we're not  
9   generating that electricity, but that savings doesn't  
10   cover the fixed costs of things like transformers, poles,  
11   operations and maintenance on a facility. And so there's  
12   a pressure on the revenue versus expense component.

13           The contributions and the process that we're  
14   talking about here in terms of recovering these Schedule 3  
15   proceeds as revenue will generally track the expense. So  
16   we're projecting 23 million of revenues in 2010. If we  
17   have less connections, we'll collect less revenues, but  
18   we'll also have lower expense in terms of  
19   interconnections. So it tracks it a little more directly.

20           Q.   And again, I know it's just an opinion. Does the  
21   construction industry make up a lot of our economy in  
22   Arizona?

23           A.   (BY MR. EWEN) It makes up less today, certainly,  
24   than it did. But obviously, growth is an important  
25   element of the Arizona economy. And I think that all of

1 us at the table would really welcome growth to return to  
2 at least manageable levels.

3 And the first step in that is really absorbing  
4 the excess housing that exists today. And having a policy  
5 that creates an incentive or at least subsidizes continued  
6 housing development that pushes that date off further only  
7 prolongs the problem.

8 Q. Okay. According to some of those charts again --  
9 I guess this was Exhibit 17 -- it looks like things are  
10 kind of slowing down. Have you had to lay off a lot of  
11 people at APS?

12 A. (BY MR. FROETSCHER) Ms. Pecora, in the past 15  
13 months, I have reduced my workforce by about 360 people  
14 because of the slowdown principally in construction, but  
15 also as a result of some operating efficiency measures.

16 Q. Okay. Thank you. When the monsoon storms or  
17 whatever comes through and wipes out 50-year-old poles and  
18 APS has to go out into the night and fix those 50-year-old  
19 poles, there's a new customer who just paid for his new  
20 pole, yet I know -- I think I'm correct -- he still is  
21 going to pay for that repair, because that's just built  
22 into the bill of the service for the company, correct?

23 I mean, even though he just paid for all of his  
24 new stuff, he still has to continue to pay to keep  
25 everything going.

1           A.    (BY MR. FROETSCHER) Yes. Similar to what we  
2   discussed a few minutes ago, the costs associated with the  
3   storm repair in that case then end up being captured. We  
4   eventually ask the Commission for consideration to get  
5   them into rate base, and those costs then would show up  
6   later as a portion of the delivery component of the bill  
7   that we all pay.

8           Q.    Okay. Again, during the public comments, I heard  
9   one or two people say that they were able to negotiate the  
10  cost down. How do we do that?

11          A.    (BY MR. FROETSCHER) You know, that's a great  
12  question. I'm not sure I would use the word negotiate.  
13  We were at a couple of the same meetings, and I think one  
14  of the examples was an in-fill lot here in the Phoenix  
15  area where a woman described an initial cost estimate of  
16  about 14-, 15-, \$16,000.

17          Q.    That was one of them.

18          A.    (BY MR. FROETSCHER) A Mrs. Clute, I believe.

19          Q.    Correct.

20          A.    (BY MR. FROETSCHER) Yes, I did some follow-up on  
21  that. I went back to my folks and asked what the  
22  situation was there. And the long and the short of it,  
23  I'll try to describe as follows. It actually is  
24  reflective of the question counsel asked about gold  
25  plating and my explanation about minimum cost to serve.



1           When the customer, when Mrs. Clute objected to  
2     the cost of 15- or \$16,000, the work that was involved in  
3     that particular line extension would have required the  
4     changing out of two existing transformers, because they  
5     were at capacity, in order to serve what was a fairly  
6     large home she was constructing, and with that the  
7     change-out of the power pole that supports those two  
8     overhead transformers.

9           When Mrs. Clute objected, we went and took  
10    another look at things, looked at the age and condition of  
11    the pole in question, and determined that, frankly, that  
12    pole had served most of its useful life, likely would have  
13    been changed out at some point from a maintenance  
14    standpoint at some point in the not too distant future,  
15    meaning two or three or four or five years, and then  
16    elected and felt it was not fair for her to have to bear  
17    the cost of the pole change-out associated with that line  
18    extension, and instead only have responsibility for the  
19    costs, the direct costs that her home, her new home, were,  
20    quote/unquote, causing, which was the upgrade of the  
21    transformers to provide sufficient capacity and voltage.

22        Q.    Thank you.

23        A.    (BY MR. FROETSCHER)   You are very welcome.

24        Q.    I think you touched on this, but I'll just ask it  
25    again and it will just be in the record twice.

1           The other states, when we're doing this checking,  
2    which I think is definitely a great approach, looking at  
3    all of these other states, there are some -- am I correct  
4    in saying that they do do subcontracting out and the  
5    people are able to do it?

6           A.    (BY MR. GULDNER) That's our understanding. We  
7    did some -- again, after doing some of the preliminary  
8    research, did some more in-depth research on that specific  
9    question and have identified probably eight or so states  
10   that have -- or utilities that have some form of  
11   subcontracting.

12           I think we knew about the PG&E. PG&E has a  
13   tariff. I think all of the California utilities have a  
14   tariff that provides for outsourcing or competitive  
15   bidding for design and construction. We found a service  
16   schedule from Public Service of New Mexico that appears to  
17   have that, and I think we found one for Nevada Power that  
18   appears to have that.

19           And one of the differences is they range.  
20   There's some that simply reference it, and then there's  
21   some that have a fair amount of detail around the  
22   provisions for how it works.

23           And so we're still doing the research on it, but  
24   we think that those other states' tariffs would be useful  
25   to look at in terms of how they're outlining the

1 requirements for, as Mr. Froetscher testified earlier, to  
2 ensure that the materials that are used are compatible, to  
3 ensure that the workers are qualified, to ensure how the  
4 process works, to ensure that the company can inspect it,  
5 those types of things.

6 Q. Okay. And I don't know if you know this. How  
7 many subsidies are on the bill? Like I know they have it  
8 for the poor, and they have it for energy, and there's  
9 some other things.

10 A. (BY MR. GULDNER) Let me respond. The question  
11 of subsidies is a policy -- it's a complicated, complex  
12 policy question that arises in essentially every utility  
13 rate case. And it's perhaps a little more complex than  
14 you might think.

15 Because you can look at a social policy objective  
16 of holding low income customers harmless because they're  
17 vulnerable to things like rate increases, and there's a  
18 social value in doing that. You then have to look about  
19 how you spread that subsidy across your existing  
20 customers. And so do you spread that just across the  
21 residential class because low income customers are a  
22 subset of the residential class, or do you spread that  
23 across commercial and industrial customers as well?

24 And that's an example for that specific issue,  
25 but I think if you talk to Mr. Crockett's clients, there's

1 also in the rate design process typically not exact parity  
2 with the cost of service study that is a component that's  
3 used to build up this rate case. And so Mr. Crockett  
4 would tell you that his commercial and industrial clients  
5 pay more than their fair share on a pure cost of service  
6 basis than do residential customers represented by RUCO.

7 And that's inherent, I think, pretty much around  
8 the country, issues that are dealt with in utility rate  
9 cases about how you appropriately put those costs on  
10 different classes of customers. And you can see that  
11 issue in the low income context, but you can also see it  
12 in the broader context of the ratemaking process.

13 Q. So it's much more involved.

14 A. (BY MR. GULDNER) It is.

15 Q. You projected this revenue, and I'm not going to  
16 dwell on it, but again, it's 23 million, 25 million, and  
17 49 million. What happens -- and I know I asked somebody  
18 this yesterday, and they said, well, that's up to APS.  
19 And I guess I just want to ask you that same question.

20 What if that revenue is not generated? What if  
21 only half of it comes in?

22 A. (BY MR. GULDNER) The primary purpose of the  
23 revenue generated from the extensions is to help offset  
24 the cost of putting those extensions in. So if the  
25 forecast that we make turns out to be instead of

1 23 million next year, \$17 million, then there would be  
2 less revenue that would be coming in from those  
3 extensions, but that would be offset, at least in part, by  
4 lower costs because we're not extending those facilities  
5 to provide that service, and we're not incurring the  
6 additional O&M, operations and maintenance, expense and  
7 related costs on those facilities.

8 And so I think from the standpoint of the  
9 settlement, the parties' viewed that more as an APS issue  
10 if the revenues come in lower but --

11 Q. It has nothing to do with the bond rating?

12 A. (BY MR. GULDNER) No.

13 MS. WYLLIE-PECORA: That concludes my questions.

14 CALJ FARMER: Chairman, do you have questions?

15 CHMN. MAYES: Thank you, Your Honor.

16

17

EXAMINATION

18

19 Q. (BY CHMN. MAYES) Let me start with some of the  
20 public comment that we got. And I think Ms. Pecora did a  
21 pretty good job of asking some of these questions, but I  
22 want to make sure that some of the questions raised by  
23 people who came to us in Prescott and Phoenix and  
24 Flagstaff are asked.

25 And you, Mr. Froetscher, discussed Ms. Clute's

1 situation. I'm sorry. I missed the final resolution of  
2 that. You lowered her estimate, and was she satisfied  
3 with that?

4 A. (BY MR. FROETSCHER) Well, Madam Chairman,  
5 Ms. Clute and the company have not been in contact for a  
6 couple of weeks. She raised the issue of an initial  
7 estimate and then a lower estimate and wanted to know how  
8 that could materialize, and that was the issue that I  
9 investigated and reported back to Ms. Pecora here just a  
10 few moments ago.

11 I have spoken with the customer service rep who  
12 has been handling that. I don't know at this point in  
13 time whether or not Ms. Clute has lost that house or is  
14 still engaged or not, so I'm not sure where that stands.  
15 I do know what the cost to serve will be, whether it's for  
16 Ms. Clute or a subsequent party.

17 Q. And you lowered it because you -- tell me again.  
18 You lowered it from 15,000, she said, to 6,500.

19 A. (BY MR. FROETSCHER) Yes. I believe the number  
20 is 6,300, Madam Chairman. And again, that is reflective  
21 of the cost of changing out the existing pole, hardware  
22 and framing on a pole that has, for all intents and  
23 purposes, served its useful life and is a cost that we  
24 will absorb as a system planning cost.

25 Q. Why did you quote her 15 grand to begin with?

1           A.    (BY MR. FROETSCHER) The customer service  
2   representative who was working with Ms. Clute at the time,  
3   quite honestly, Chairman, I don't think recognized that in  
4   all likelihood we would be changing that pole out at some  
5   point in the next couple of years because of it's age and  
6   condition, and, therefore, did not give consideration that  
7   that cost, in fairness terms, should not be passed along  
8   to Ms. Clute.

9           Q.    And so it got changed after she complained?

10          A.    (BY MR. FROETSCHER) Not to the Commission, nor  
11   to me. She objected to the initial cost estimate. And to  
12   the customer service representative's credit, she came  
13   back, spoke with her leader, took her leader out to the  
14   field, the two of them met with Ms. Clute, and the leader  
15   made the decision that the cost of changing out the pole  
16   was not a cost that should fairly be attributed to  
17   Mrs. Clute.

18          Q.    And how can the Commission be assured that that's  
19   not happening all over the place?

20          A.    (BY MR. FROETSCHER) Clearly, Madam Chair, I  
21   can't blanketly tell that that's not happening. We get  
22   pushback, as well we should, on some quotes to customers.  
23   I have a high level of confidence that our people  
24   understand the policy, apply it equitably. That the  
25   minimum cost to serve that I described earlier is a well-

1 understood concept and that system planning costs or  
2 system improvements costs are not passed on to customers.

3 There are times that it's going to take a second  
4 set of eyes, and in this particular case that's what  
5 transpired.

6 Q. You know, I think maybe you guys need to think  
7 about it, and I think the Commission -- you know, I think  
8 all of the Commissioners have a lot of questions about  
9 this, and I'm not really satisfied with that answer,  
10 Mr. Froetscher. I know -- I mean, I appreciate, you know,  
11 you giving it your all, but I'm not really satisfied with  
12 that. I don't see a uniform system here. It sounds a  
13 little squishy to me, like maybe people are getting  
14 different quotes based on different --

15 You know, so Mr. Guldner, do you know, is there  
16 any way you can --

17 A. (BY MR. GULDNER) Chairman Mayes, one of the  
18 modifications that I think would help at least on some of  
19 these issues are the proposed changes in the settlement to  
20 move to a statement of charges and more itemization so  
21 that you can, to some extent, do more standardization on  
22 the extensions.

23 So, for example, if we moved to a footage, you  
24 know, cost per foot for facilities, and an individual may  
25 be higher or lower than the actual cost, but what they're



1 going to get is the quote in the statement of charges,  
2 which is a more system average basis. That may eliminate  
3 some of the issues.

4 I don't think it gets -- and we do have to do  
5 some more evaluation on -- I think what is a little bit  
6 more complex, which is can the design change. And so, for  
7 example, if somebody comes in and says I want to -- this  
8 is what I want. I don't like that quote. Is there a way  
9 we can work together to figure out maybe I don't need  
10 three-phase power, or maybe I can do some change to my  
11 design that helps bring the cost to serve down from what I  
12 initially asked for, recognizing that some customers may  
13 not understand all of the nuances of their request for  
14 service.

15 Q. Is there an ombudsman at APS?

16 A. (BY MR. GULDNER) There is. We have in my  
17 department between three and four people that handle calls  
18 that come in. There's an escalation process. So if  
19 someone calls our customer service line and they try --  
20 they can't resolve an issue on the customer service line,  
21 it continues to kick up to a team of specialists who work  
22 very closely with the Commission consumer protection folks  
23 to try to resolve issues that come up individually. And  
24 that's where they'll typically get engaged and go out to  
25 the field and work with folks to try to see if we can

1 resolve those issues.

2 Q. And are line extension seekers told that they can  
3 access the ombudsman?

4 A. (BY MR. GULDNER) They have. And Mr. Froetscher  
5 can talk to it, but a lot of the work they've been doing  
6 has been our transition issues with the new line extension  
7 policies. And so my folks have been working -- we've been  
8 working with Commission Staff on trying to resolve some of  
9 the formal complaints or the informal complaints that have  
10 come into the Commission, but also the issues that are not  
11 coming to the Commission that are being phoned in from the  
12 escalation process that we have.

13 Q. Well, that may be something that the  
14 Commissioners want to address in the course of deciding  
15 this issue.

16 Ramona Chavez came to us in Phoenix and stated  
17 that she started a home in 2006, finished it in  
18 March 2009. She asked what it would cost at the time in  
19 2006 and was told it would cost \$8,000 to extend service,  
20 and then she said to us that it became \$24,000.

21 Can you explain that, Mr. Froetscher? Did it  
22 really triple in cost? And if so, why?

23 A. (BY MR. FROETSCHER) We first heard from this  
24 customer on February 21, 2008. The home was completed.  
25 The initial quote was for \$18,550. That was given

1 verbally on the 25th of February in 2008. It was under  
2 Revision 9 where there was a \$5,000 allowance.

3 The customer questioned the cost, because they  
4 had been told by their neighbor that they had gotten their  
5 line extension at no cost. The customer service  
6 representative explained that the line extension policy  
7 and Schedule 3 had changed, and that under the new policy  
8 they would receive the \$5,000 credit towards the final  
9 cost. And thus, while the total construction cost was  
10 twenty-three-five, the requested amount from the customer  
11 would be eighteen-five. The customer indicated that they  
12 would not be able to afford it and moved on down the road.

13 In July of this year, July of 2009, we heard from  
14 the customer again. We re-priced the line extension to  
15 serve the customer with an incremental difference of about  
16 \$1,000. The current cost is twenty-four-five. Of course,  
17 the policy has changed again since February of '08. The  
18 \$5,000 allowance is no longer in play. Although, I would  
19 submit to you, that based on their initial inquiry, I'm  
20 confident that we could do some work with this particular  
21 customer in terms of honoring the Revision 9 request.

22 Q. Because you gave it verbally, or was it given in  
23 writing?

24 A. (BY MR. FROETSCHER) By the letter of the law,  
25 Madam Chairman, you are exactly correct. And yet I

1 believe we've been -- or tried to be liberal and fair in  
2 that if a customer was well along in a given project,  
3 tried to afford them the courtesies of a prior policy if  
4 they were already actively engaged in home construction  
5 and had been dealing with the company.

6 Q. Can you explain John Baker's situation who was  
7 charged \$13,500 when he said that the power was right  
8 across the street 80 feet away?

9 A. (BY MR. FROETSCHER) Mr. Baker escaped from the  
10 public comment session here. I have no contact  
11 information. He didn't leave an address in his  
12 discussion, so we had nothing to follow up with there.  
13 Baker I know nothing about Madam Chairman.

14 Q. Okay. Well, I don't know if he left an address  
15 on his public comment slip, but maybe that's a way to  
16 track it down. We should have those.

17 In Prescott, Pam Pearsall, the Yavapai County  
18 Assessor, asked about shape files. Can you discuss that  
19 issue?

20 A. (BY MR. FROETSCHER) I can. I'm not sure I want  
21 to, but I can.

22 Q. Let's talk about it.

23 A. (BY MR. FROETSCHER) Ms. Pearsall made the  
24 request for an updated version of shape files, a set of  
25 files that presumably her office had acquired in 2005,

1     although they acquired them indirectly from APS, and that  
2     set of shape files were actually provided to Yavapai  
3     County Emergency Services from our vegetation management  
4     folks.

5             As I believe you're aware, Madam Chairman, our  
6     vegetation management folks and various county emergency  
7     service organizations work quite closely together because  
8     of their mutual interest in forest fire prevention and  
9     mitigation. So we had provided the shape files to  
10    emergency services in Yavapai County, and were not aware  
11    that they had been moved over to the assessor's office.  
12    Nonetheless, they were.

13            When Ms. Pearsall made the request for updated  
14    version of shape files, we had given in the last couple of  
15    years this issue considerable thought as it relates to  
16    system reliability and security and what concerns there  
17    might be about distributing files of our distribution  
18    system, losing control of said files, not having an  
19    ability to know where they might migrate to, who might  
20    have access to them. These are what you and I would  
21    consider analogous to distribution one lines.

22            So while there's -- I don't want to imply that  
23    there's all kind of detail about the system, it's clear  
24    from the maps where the poles go and where the lines go,  
25    and how the distribution system plays out or is laid out

1 in the field.

2 And so when we think in terms of security, and by  
3 extension all of the issues post 9/11, cyber security,  
4 things of that nature, I had initially resisted and felt  
5 as though I would have a hard time at some future date,  
6 God forbid, explaining to -- with all due respect, someone  
7 like you, God forbid, if there was an incident why I had  
8 released files of our distribution system and somebody had  
9 put them to use that was not in the public's best  
10 interest.

11 I've also done some subsequent research, and the  
12 definition of critical infracture and things of that  
13 nature are not very clearly defined. So I can't point to  
14 any FERC, NERC, WECC, ACC, or other policy or program that  
15 tells me that, in fact, these should be protected files.

16 So we are prepared to back to Ms. Pearsall. We  
17 developed a license agreement within which confidentiality  
18 should be assured and are prepared to sit down with her  
19 and she if we can't find some way of meeting her needs,  
20 and at the same time not jeopardizing our responsibilities  
21 as it relates to public safety and health, and electricity  
22 is critical infrastructure, and see if we can't find some  
23 common ground.

24 Q. When is that meeting scheduled for?

25 A. (BY MR. FROETSCHER) It has not been firmly

1 scheduled. I will be happy to advise you when I do have  
2 that set up.

3 Q. Thank you.

4 A. (BY MR. FROETSCHER) You bet.

5 Q. Mr. Deloer, D-e-l-o-e-r, in Prescott, said that  
6 it was going to cost \$35,000 to extend to his home, and he  
7 had to give the property back.

8 Do you have any details on that situation? I  
9 don't know if there are any -- I didn't write down any  
10 extenuating circumstances, but I did make a note of it.

11 A. (BY MR. FROETSCHER) I don't have it on my list.  
12 I recall the name from the public meeting there. I don't  
13 believe we picked up an address.

14 Q. Okay. Mr. Pyski, this is the case in Prescott  
15 where he was quoted \$70,000 -- \$30,000, which included, I  
16 think, the 1,000 free feet, and then it turned into  
17 \$70,000. That seemed pretty extreme.

18 A. (BY MR. FROETSCHER) It certainly did. I was  
19 hoping that you were going to let me go for the weekend.

20 Q. No, not yet. It's not 5:00 yet.

21 A. (BY MR. FROETSCHER) We have met with Mr. Pyski  
22 on the 18th, two days ago, Madam Chairman. Mr. Pyski  
23 apparently contacted -- Mr. Pyski's property is in Walker.  
24 I believe you know where Walker is.

25 The line extension to serve Pyski's property is

1 more than 2,000 feet. So even had we had Revision 8 in  
2 play today, it would not qualify for the footage basis  
3 under Revision 8.

4 Apparently, in 2007, Mr. Pyski contacted the  
5 company and gave a legal description of where his property  
6 was and had a verbal conversation with one of my employees  
7 about a horseback, back of the envelope, what it would  
8 cost to extend power, and the number was thrown out of  
9 about 30- to \$35,000. No site visit, no mutual site trip,  
10 nothing like that. We relied upon Pyski's information  
11 that it was a couple of thousand feet away.

12 We know that getting up and getting in and around  
13 Walker is time consuming and challenging and digging  
14 conditions can be difficult, and so on and so forth. We  
15 gave him a back-of-the-envelope verbal in that regard, and  
16 didn't hear from him again. When he did come back  
17 around --

18 Q. When was that?

19 A. (BY MR. FROETSCHER) That was '07.

20 Q. That was before or after we passed the new  
21 policy?

22 A. (BY MR. FROETSCHER) I don't know that I can tell  
23 you that. I'll double check here in a moment.

24 But the conversation was of a nature where no  
25 customer file was created, no application was made. This



1 was a -- and we get a lot of these -- can you give me a  
2 horseback number for what it might cost to extend service?  
3 So that's what it was.

4 He came back and applied for service, ironically,  
5 a couple of days before the Open Meeting in Prescott. We  
6 have since met with him. We have prepared a detailed  
7 estimate. The estimate is on the order of about 63-,  
8 \$65,000. It involves traversing some different terrain  
9 and things of that nature.

10 Mr. Pyski is aware of that number. I certainly  
11 won't speak for him and try to tell you that he's thrilled  
12 with the number, but I think he understands what the  
13 construction costs are and what the construction  
14 challenges are. There's tree trimming work that's  
15 ancillary to this as well.

16 This is a longer route than the Point A to  
17 Point B short route that was discussed verbally back in  
18 2007, because there's a legitimate concern that the  
19 Point A to Point B shortest possible route, which crosses  
20 Prescott National Forest land, will not be approved by the  
21 Forest Service, because they would prefer to see the  
22 extension go underground rather than overhead.

23 Well, Mr. Pyski, (a) is not interested in digging  
24 a trench for 2,000 feet. That's a significant expense  
25 that he would have to bear. And two, we don't have what

1 is called a system neutral up there that allows for the  
2 primary system to go underground.

3 So where it stands today is we have met with him.  
4 He has a firm estimate. He knows what it is and he  
5 understands it. He is going to go speak to the Forest  
6 Service to see if they'll give him any consideration for  
7 the shorter Point A to Point B route crossing forest lands  
8 overhead. And if he comes back with that, we'll be happy  
9 to design a work order to serve him in that fashion.  
10 Otherwise, it will be the longer of the two routes, and  
11 he's fully aware of what the costs are.

12 Q. Do you think there's any inequity in the fact  
13 that you gave him a \$30,000 verbal quote two years ago,  
14 and now you're asking him to pay \$65,000?

15 A. (BY MR. FROETSCHER) I don't, Chairman, and I'll  
16 tell you why. I honestly believe that my folks at that  
17 time would have said, gee, you're talking a couple of  
18 thousand feet. You're talking Walker. The average cost  
19 per mile is this, Mr. Pyski, but you have got to  
20 understand, this is, you know, this is an estimate sitting  
21 in the office, and that's all you're interested in is some  
22 kind of a ballpark here. You know, the actual number  
23 really ought to be developed off of a detailed estimate,  
24 and if you're interested in doing that --

25 Q. Well, do you think you should have done that?

1           A.    (BY MR. FROETSCHER) The gentleman -- and again,  
2    I don't know what his situation is. I know he has drilled  
3    two wells up there. Hasn't found water yet. I suspect  
4    his was a very cursory --

5           Q.    No. I mean, do you think your employee should  
6    have given him the \$30,000 figure?

7           A.    (BY MR. FROETSCHER) I don't have a problem with  
8    that as long as the caveats were there that, boy, this --  
9    you know, the purpose of the 30,000 is to establish for a  
10   customer that it's not going to be 3,000, and it's not  
11   going to be 300,000. That it's going to be 30-, 45-,  
12   50,000. Give them some realm with which to work.

13                So I don't have difficulty with that, as long as  
14   we're also communicating in that kind of a situation that  
15   it's been done without a field walk down, there's no  
16   detail, no actual design, no actual pricing. This is  
17   provided solely for the purpose of giving you some sort of  
18   a range from which to plan.

19           Q.    But the Commission also ordered that anyone who  
20   was given a quote under the old policy still be able to  
21   have that quote, didn't we? I mean, we had a  
22   grandfathering provision.

23           A.    (BY MR. FROETSCHER) That called for quotes that  
24   had been provided in writing. And I don't want to get  
25   hung up on that nit, because I --

1 Q. Because it's kind of a nit.

2 A. (BY MR. FROETSCHER) Well, because we behave  
3 differently, quite honestly, Madam Chairman, and I believe  
4 we behave to the benefit of the customers in that as we  
5 went through this transition plan, we have honored and  
6 grandfathered a number of customers who had not been given  
7 a job cost quote in writing or hadn't received agreements.

8 But quite simply, the marching orders were, look,  
9 if the customer had made application, was making progress  
10 on their home or their project, and was actively engaged  
11 in a dialogue with the company regarding what and how were  
12 we going to extend service to them, then we have honored  
13 the revision of Schedule 3 within which they fell under  
14 when they made their initial application.

15 In the case of a Mr. Pyski in 2007, I believe,  
16 based on what I know of the development of his property,  
17 the absence of water, I think he was looking for, you  
18 know, again, a general number so that he could start to  
19 get his thoughts together about how he was going to do his  
20 house over a period of years in Walker.

21 Q. Okay. Can you report back to me on that after  
22 Mr. Pyski gets back to you?

23 A. (BY MR. FROETSCHER) In terms of?

24 Q. Well, you said he was going to talk to the Forest  
25 Service.

1 A. (BY MR. FROETSCHER) Yes, be happy to.

2 Q. Mr. Brunk spoke to us in Prescott. He asserted  
3 that APS is asking -- he was looking into doing off-grid  
4 solar, he told us. And he said APS is asking customers to  
5 hook up to the grid when they ask for off-grid solar.

6 Do you remember that?

7 A. (BY MR. FROETSCHER) I do.

8 Q. What is going on with that?

9 A. (BY MR. FROETSCHER) Mr. Brunk owns about  
10 2,500 acres in the Hillside area. It's a series of  
11 noncontiguous parcels, ranging in size from one acre to  
12 640 acres. You are, I am confident, familiar with the  
13 Hillside Road, and it's about 15 miles down Hillside Road,  
14 and about 5 miles outside of the thriving community of  
15 Hillside.

16 Q. It is thriving.

17 A. (BY MR. FROETSCHER) Yes, it is.

18 Q. It's a great community.

19 A. (BY MR. FROETSCHER) It's a wonderful place.

20 Q. Fabulous. I hope to retire near there some day,  
21 seriously.

22 A. (BY MR. FROETSCHER) Well, can we get you in  
23 under Revision 8?

24 Q. I don't know if I can afford it, but okay. So  
25 Hillside.

1           A.    (BY MR. FROETSCHER) So we have a three-phase  
2 line that runs through the area, serves some of the  
3 ranching communities there. No application from Brunk.  
4 And I'm stuck here in a little bit of a he said/she said  
5 or lack of communication.

6                   My Wickenburg office that handles that area is  
7 aware there's an off-grid solar program. Claims that  
8 they're not trying to drive people to necessarily on-grid  
9 connections. And that we've had the conversation with  
10 Mr. Brunk that a power line extension would probably run,  
11 horseback, back-of-the-envelope number, about \$5,000 per  
12 pole, about 300-foot spacing between poles to get into any  
13 or all of his parcels, all subject, then, to a further,  
14 more detailed estimate depending upon which parcel he  
15 wants to see developed. And as a viable alternative,  
16 there's an off-grid solar program. So I believe -- I have  
17 not talked to him. I believe he's squared away.

18           Q.    Okay. It did seem a little contradictory if he  
19 was told that.

20           A.    (BY MR. FROETSCHER) Yes. And, of course, I've  
21 got no employee in Wickenburg raising their hand and  
22 saying, yes, Daniel, I'm trying to steer customers away  
23 from off-grid solar. I mean, they're aware of the  
24 program. No one recalls that being part of the  
25 conversation. So I don't know if there was a

1 miscommunication or what the situation is, but I have made  
2 certain that my customer service reps are familiar with  
3 our off-grid solar offering.

4 Q. Okay. And in Flagstaff, Mr. Broderick had an  
5 interesting idea, and I don't know how feasible it is, but  
6 I wanted to raise it with you. I think Ms. Pecora did,  
7 too, which was the idea of on-the-bill financing for line  
8 extension costs.

9 Has APS given any thought to that, where an  
10 individual would be able to pay off their line extension  
11 bill over time?

12 A. (BY MR. GULDNER) Chairman, we're looking at  
13 that. Frankly, the hurdle we've got to overcome is in  
14 contrast to on-the-bill financing for commercial customers  
15 and energy efficiency programs where, (a) there's an  
16 established or there's a niche market in finance companies  
17 that do that, (b) providing loans to commercial customers  
18 doesn't make you a consumer lender subject to federal  
19 banking regulation.

20 Our concern right now is if we do it directly  
21 just through APS, that we may have to satisfy banking  
22 regulations that would impose some significant additional  
23 compliance costs. So we're still looking at the issue,  
24 but that's the challenge we're trying to address right  
25 now.

1 Q. Well, you used to own a bank, but not anymore.

2 A. (BY MR. GULDNER) We don't want to replicate that  
3 experience.

4 CHMN. MAYES: I agree. That's a good thing that  
5 you're out of that business. All right.

6 CALJ FARMER: Chairman Mayes has indicated she's  
7 got probably at least a half an hour more, and I have  
8 questions from Commissioner Pierce, as well as my own. So  
9 I think this would be a good breaking point for today.  
10 We're scheduled Monday with Ms. Pecora's witness Nelson, I  
11 believe.

12 MS. WYLLIE-PECORA: Your Honor, Chairman Mayes,  
13 he's coming down from Flagstaff, so we can see what time.  
14 Offhand, I'm thinking it was 10:00.

15 CALJ FARMER: Okay.

16 MS. WYLLIE-PECORA: But he might be here earlier.

17 CALJ FARMER: Why don't we start with the  
18 continuation of the panel and see how that goes. And then  
19 is he flexible with his time on that day? Do you know.

20 MS. WYLLIE-PECORA: I will say, I think so.

21 CALJ FARMER: Okay. Well, let me know on Monday  
22 if there's a problem.

23 MS. WYLLIE-PECORA: If it's contrary, thank you.

24 CALJ FARMER: And Chairman Mayes.

25 CHMN. MAYES: Could I ask a question? I don't



1 know if it's possible for Mr. Rumolo to work on this over  
2 the weekend or over the next week or so.

3 MR. GULDNER: Sure, it is.

4 MR. RUMOLO: I guess so.

5 CALJ FARMER: You're being volunteered by your  
6 colleague.

7 MR. RUMOLO: My boss.

8 CHMN. MAYES: Good thing football season hasn't  
9 started yet. I guess it hasn't. No?

10 Anyway, I was very interested by APS Exhibit 17,  
11 and I was wondering if there was -- if you have these  
12 figures both in the first table and in the second table  
13 going back four years beyond 2005. In other words, could  
14 you calculate either of those tables since 1995?

15 MR. RUMOLO: Chairman, I'm not sure which set of  
16 tables you're looking at.

17 CHMN. MAYES: Well, Page 2.

18 MR. RUMOLO: Page 2.

19 CHMN. MAYES: Like the second table, the rate  
20 impacts for Schedule 3, if they had been booked as revenue  
21 or Schedule 3 booked as CIAC. How far back does the  
22 company have those figures for?

23 MR. RUMOLO: I need to find out. I know we're  
24 working on a longer time frame in response to a question  
25 that you had yesterday, and that's in the works.

1 CHMN. MAYES: Is it kind of similar to the  
2 question that I asked before?

3 MR. RUMOLO: Yes.

4 CHMN. MAYES: All right. Then can you -- okay,  
5 so you'll get back to me on how far back you can go?

6 MR. RUMOLO: Yes.

7 CHMN. MAYES: And I would be interested in going  
8 back as far as we can.

9 MR. RUMOLO: Yes.

10 CHMN. MAYES: And then on the first table, can  
11 you -- I understand this involves -- this includes  
12 individual residential subdivisions and nonresidential?

13 MR. RUMOLO: Yes.

14 CHMN. MAYES: Can you break that down into just  
15 individual residential and individual nonresidential and  
16 take out the subdivisions?

17 MR. RUMOLO: Yeah, I believe I can.

18 CHMN. MAYES: Okay. That would be interesting  
19 for those years.

20 MR. FROETSCHER: You're on Page 1, correct?

21 CHMN. MAYES: No. On Page 2, Dan.

22 MR. FROETSCHER: Okay.

23 CHMN. MAYES: And then I guess does the second  
24 table include subdivisions in it?

25 MR. RUMOLO: Yes, Chairman. The second page

1 takes all extensions.

2 CHMN. MAYES: All extensions, okay. All right.

3 Yeah, go ahead.

4 MR. RUMOLO: If we don't have that first thing  
5 Monday morning, you'll have the opportunity to come after  
6 me again, I'm sure, before it's all over.

7 CHMN. MAYES: Great, thank you.

8 CALJ FARMER: Okay. To recap, Monday we're going  
9 to come back at 9:00, and we'll begin with the panel.  
10 Then we'll go to Ms. Pecora's witness Nelson, and then  
11 RUCO's witness Ms. Jerich, and then the Staff, all on  
12 Schedule 3.

13 And I see -- does the FEA need to say something.

14 MS. WHITE: I just wanted to find out if it's  
15 necessary or appropriate to let you know that I will not  
16 be back in attendance. I will be monitoring over the  
17 internet. I have to return to Florida. I just wanted to  
18 let you know that.

19 CALJ FARMER: Thank you for attending this week,  
20 then.

21 Anything further we need to get on the record at  
22 this point? I need to ask APS to get another copy of  
23 Exhibit APS-17. Commissioner Pierce would like a copy of  
24 that. With that, I'll see you all Monday morning at  
25 9:00 a.m. Thank you.

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1 STATE OF ARIZONA )  
2 ) ss.  
3 COUNTY OF MARICOPA )  
4

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11 WITNESS my hand this 21st day of August, 2009.

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